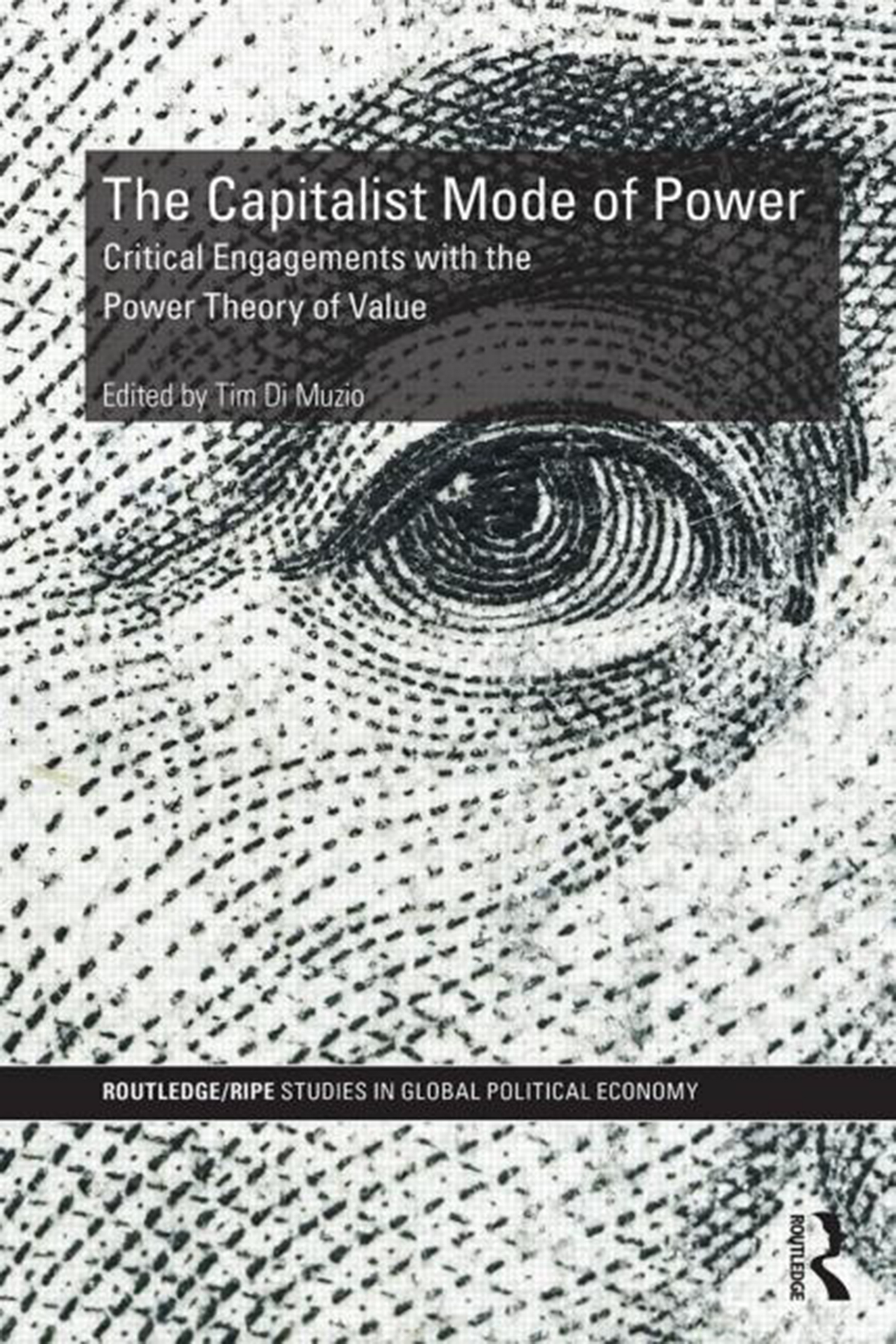

# The Capitalist Mode of Power

## Critical Engagements with the Power Theory of Value

Edited by Tim Di Muzio

ROUTLEDGE/RIPE STUDIES IN GLOBAL POLITICAL ECONOMY

# The Capitalist Mode of Power

This edited volume offers the first critical engagement with one of the most provocative and controversial theories in Political Economy: the thesis that capital can be theorized as power and that capital is finance and only finance. The book also includes a detailed introduction to this novel thesis first put forward by Nitzan and Bichler in their *Capital as Power*.

Although endorsing the capital as power argument to varying extents, contributors to this volume agree that a new understanding of capital that radically departs from Marxist and neoclassical theories cannot be ignored. Offering the first application and appraisal of Nitzan and Bichler's theory, chapters examine the thesis in the context of energy and global capitalization, US investment banks, trade and investment agreements between Canada, the US and Mexico, and multinational corporations in apartheid South Africa. Balancing theory, methodology and empirical analysis throughout, this book is accessible to new readers, whilst contextualizing and advancing the original theoretical debate.

*The Capitalist Mode of Power* will be of interest to students and scholars of international relations, political economy, globalization and critical theory.

**Tim Di Muzio** is Lecturer in International Relations and Public Policy at the University of Wollongong, Australia.

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# Glossary

**Breadth regime**. One of two main paths for achieving differential accumulation. This regime is characterized by overall growth, corporate amalgamation and greater proletarianization. From a structural viewpoint this regime of accumulation is dynamic and less conflict prone than a depth regime.

**Business**. The enterprise of pecuniary distribution concerned with profit and differential gain expressed symbolically in monetary terms. Business is an institution of power. It exists to control human industry for profit, not production, and therefore bears a negative relationship to industry.

**Capitalization**. Capitalization is the discounting to present value of risk-adjusted expected future income. For listed corporations, capitalization – which is often called market value – is calculated by multiplying the price of one share by the number of outstanding shares. For example, if Facebook has 2.17 billion shares outstanding and one share is currently trading at US$24, then the company is currently capitalized at US$52 billion. But capitalization is also the dominant mathematical ritual of capitalist societies. Anything that generates an income stream can theoretically be capitalized and, in that sense, is part of capital.

**Creorder**. A neologism used to think about both the dynamic and static dimensions of creating order in any historical society.

**Depth regime**. One of the two main paths for achieving differential accumulation. This regime is characterized by stagflation (a combination of stagnation and inflation). It tends to consolidate corporate power but it is a more conflictual and often violent method of accumulation than breadth regime.

**Differential accumulation**. Conventional theory argues that capitalists aim to maximize profits, but in practice capitalists neither know what this maximum is nor strive to achieve it. Instead of maximum accumulation, capitalists aim for differential accumulation. They try to 'beat the average' and exceed the 'normal rate of return' – and in so doing, to accumulate faster than others. For example, if an investor outperforms the S&P500, or if the oil and gas sector generates greater earning growth than their rivals, they beat their benchmark rate of return and accumulate faster than the capitalists that comprise this benchmark.

**Differential capitalization**. Denotes a ratio of capitalized income-generating assets. For example, if the oil and gas sector is outperforming its rivals by generating greater earning growth, we are likely to see the capitalization of this sector rise relative to the capitalization of other sectors.

**Dominant capital**. The leading firms and government organs at the centre of the accumulatory process. This group can comprise a fixed number (say 5, 50 or 500, depending on the context), or a given percentage (say 0.1 per cent or 1 per cent) of the top corporations ranked by market capitalization, profit or another key indicator. Identifying the government organs or agencies that assist these firms in their quest for earnings is a matter for empirical study.

**Industry**. The collective societal endeavour concerned with livelihood, serviceability to the community and overall human well-being. The success of industry understood in this broad way depends upon human creativity, cooperation, integration and synchronization.

**Mode of power**. The specific architecture of power that creates and recreates a given hierarchical, class society. The notion of a mode of power differs from that of a mode of production: whereas the latter emphasizes production and labour as central to understanding society, the former prioritizes the role of organized power.

**Political economy**. There is no separation of the 'economy' from 'politics' in the capital as power framework. In this framework, political economy is understood as the study of the capitalist mode of power.

**Power**. The differential ability to shape and reshape the trajectory of human society with the goal of controlling and directing human beings and the natural world to garner ever more ability to do the same. Power is known through its effects, which in capitalism are quantified and universalized through relative prices.

**Sabotage**. The strategic ability to incapacitate or restrict production and human creativity for the sake of business profit. There are two types: universal sabotage which all businesses pursue as a matter of course and acts of sabotage that are unique to one corporation or a group of corporations.

**State of capital**. A synonym to the 'capitalist mode of power'. Conventional and Marxist theories view the state as a distinct entity, separate from the economy and civil society. In this framework, capital is an economic entity that stands in contradistinction to the state. In the theory of capital as power, by contrast, the state refers not to a distinct organization (government organ) or to an arena of open struggle (between social groups), but to the mode of power of society. The capitalist mode of power, which emerged in the twelfth century, has evolved to constitute the contemporary state of capital.

**Value**. In the capital as power framework, valuation is considered a manifestation of power. Value is understood as the capitalization of income-generating assets, and the relative magnitude of capitalization is a matter of differential organized power.

# 1 The provocations of capital as power[1]

*Tim Di Muzio*

In the social and natural sciences it is rare to find the introduction of a work whose primary aim is to critically challenge what Lakatos called the 'hard core' of long-cherished theories and, based on this critique, construct a novel theoretical perspective from which to interpret the world anew (Lakatos and Musgrave 1970: 133). This, in essence, is what Jonathan Nitzan and Shimshon Bichler (2009) have set out to do to the field of political economy in their *Capital as Power: A Study of Order and Creorder*. They do not offer a marginal critique of political economy, but a foundational one. Through decades of painstaking original research and critique, Nitzan and Bichler have developed a unique and innovative theory of capital – arguably the central institution of the global political economy. Though they do not aim to provide a comprehensive theory of capitalist society in general, given the aims of their work, their critique of neoclassical and Marxist definitions of capital, and the introduction and careful explication of their own approach to capital and its accumulation, their work cannot fail but to provoke.

To provoke, often understood pejoratively, is to incite someone to action. In this sense, the entire text of Nitzan and Bichler's *Capital as Power* can be read as one giant provocation directed at all those who practice political economy. But in fact, their provocations are cast far wider. Since the authors argue that 'capital' is *the* central institution of global society and 'capitalization' (see glossary) its dominant ritual, their new theory of capital, accumulation and the shifting sands of social reproduction is really a provocation to all those concerned to understand and explain the capitalist order which they largely do not control, but in which they are embedded. At base, their work challenges us to see beyond the conventional pieties of mainstream and heterodox political economy. It not only invites us into a discussion but it also asks us to consider the potentiality of a new research programme anchored in a new theory of value: the power theory of value. This new theory of value suggests that the value of capitalized financial assets is determined not by the productivity of capital goods or the exploitation of surplus labour power, but by the power of capitalists to create and recreate the landscape of social reproduction *writ large* in an effort to garner differential earnings. But while we can read their text as a giant provocation, in this opening chapter I prefer to separate out analytically three distinct yet overlapping provocations. I argue that these three provocations call out for critical engagement by scholars of political economy in particular and the social sciences more generally. The organization of this chapter, and indeed the edited collection as a whole, is designed around these three provocations.

The first provocation is the provocation of history and deals specifically with how far and in what ways their historical rendering of the transition to capitalism (what they call 'the capitalist mode of power' – see glossary on 'mode of power') is convincing in light of historical evidence and whether their new theory of capital as power might help us reinvigorate, if not reorient, the debates on the transition to capitalism and the history of the global political economy more broadly. The second provocation is the provocation of a new theory that challenges, or perhaps more aptly put, threatens, the two major theoretical approaches to the political economy of capital and its accumulation. It asks scholars to engage with the theory in an effort to tell what Patomaki (2009) calls 'better stories about the history and future of the global political economy.' This is perhaps the most important provocation because Nitzan and Bichler do not make the claim that the dominant theories of political economy are slightly misguided and can therefore be corrected with a few intellectual tweaks but that they are, at their core, wrong. If these two provocations are not enough for a single work, there is a third. The third provocation is an open invitation to engage with and critique the capital as power thesis. It not only incites us to challenge the power theory of value put forward in their text but also the ontological categories and novel concepts and arguments that serve to ground their interpretation of capitalist 'development' and human potential. What these provocations all amount to is a desire for critical engagement at a time when the capitalist order is being questioned anew by social forces around the world. For example, the transnational Occupy Wall Street movement – mobilizing under the banner of 'We are the 99%' – garnered worldwide public attention for occupying financial centres around the world. Under current conditions of capitalist existence, many believe that this movement, while fraught with organizational and strategic challenges, has served to reorient debates about the future of capitalism while putting the spotlight on the policies that have helped enrich a tiny fraction (the 1 per cent) of the global population by neoliberal legislation, redistributive policies and the purchase of political power.[2] Even the *Financial Times*, arguably the most authoritative business and financial press, introduced a new series on 'capitalism in crisis' in the beginning of 2012.[3] For others however it is not just one crisis, but a series of crises: economic, financial, ecological, political, social and cultural (George 2010; Gill 2011).

So it is within this spirit of critical engagement and the general mood among many that there is something drastically wrong with capitalism that we seek to reinvigorate debates within international political economy. All of our collective contributions have been forged in this spirit. Not all of the authors included in this volume are fully convinced by the capital as power hypothesis or many of the new concepts and methodological tools introduced by Nitzan and Bichler (see for example, Part III). However, we do collectively agree that the novel theory and arguments put forward in *Capital as Power* must be engaged with given its many provocations and the general lack of engagement that their intervention has so far received in the literature. This is largely what makes this contribution to the literature in international political economy timely and unique: it is the first volume to critically engage the thesis that capital is commodified differential power. In the following section I aim to provide readers who are unfamiliar with the work of Nitzan and Bichler with a brief overview of their approach – though I highly recommend reading their book in its entirety. I then elaborate and outline how the contributions in this volume critically engage with the provocations of *Capital as Power*.

## A brief introduction to capital as power

Nitzan and Bichler's approach begins with the concept of capital. The reason is simple: if we want to study capital-*ism*, we ought to start with a clear analytical definition of capital. Unlike the many political economists who write with the assumption that the meaning of capital is self-evident, the first question asked by the authors is: what is capital and how do we know its magnitude? A related question is just what is being accumulated when we talk about the accumulation of capital? The entire intellectual edifice of political economy, not to mention its international variety, rests (most often implicitly) on these very questions. As it turns out, there are only *two analytical definitions* aimed at quantitatively measuring capital: the neoclassical and the Marxist. And both have different answers to the question: for the neoclassicals capital means capital goods and it is measured in so-called 'utils' – or hedonic units of pleasure.[4] So what gets accumulated in this framework? The answer: productive capital goods denominated in terms of the utils they generate for society. Marx's answer is quite different. For Marx capital was certainly a social relation between labour and capitalist owners grounded in industrial or material production. But when it came to explaining the magnitude of capital Marx chose to measure it in units of labour time or what he called – socially necessary abstract labour.[5] Committing to the labour theory of value – whereby labour is considered the *sole* source of value – lead Marx to argue that capital accumulates through the surplus value extracted from workers during the work process because workers produced more value during the work day than they were compensated for in wages. So what gets accumulated in Marx's framework? The simple answer is surplus (read: unpaid) labour, but this is not totally accurate. Since active labour is expended during the production of commodities what gets accumulated is surplus dead labour. Or as Marx himself put it:

> Capital is dead labour, that, vampire-like, only lives by sucking living labour, and lives the more, the more labour it sucks. The time during which the labourer works, is the time during which the capitalist consumes the labour-power he has purchased of him.
>
> ([1867] 1976: 342)

As Nitzan and Bichler methodically detail in their work, both attempts to define and measure capital are mired in an unwavering materialism and trapped by the dualities of 'politics' and 'economics', the 'real' and the 'nominal' or, put in more familiar terms to political economists: the 'productive-industrial' and the 'fictitious-financial'. The problem is that these commitments leave neoclassicals as well as their Marxist counterparts in a situation where they are not only unable to explain capital and its accumulation but also to offer a convincing answer to the question: *what gets accumulated?* Nitzan and Bichler offer a systematic critique of both interpretations in much of their book so it is difficult to encapsulate the richness of their critique here. But suffice it for me to write that the neoclassical definition of capital as capital goods has been proven incorrect in the Cambridge Capital Controversy of the 1960s (see Chapter 6 in this volume). In order to determine the level of economic output and justify income distribution amongst the factors that are alleged to contribute to production, economic liberals invented the 'production function'. The problem, however, is that in order to know the economic output and therefore the distribution of income amongst the contributing factors of production (land, labour and capital), we first have to know the physical magnitude of the economic inputs. The big problem, as those schooled in finance rather than economics might remind us, is that the value of one of the factors – capital – is contingent on the income it generates – in this case, profit. And since this is the case, then there is no way you can measure the 'productivity' of capital and justify capital income before you know the magnitude of profit! The problem arises in the first place because of the way in which the production function is set up. To explain profit, profit is put on the left hand side of the equation while the inputs are on the right hand side. What this means is that the physical quantity of capital (on the right side of the equation) has to be *measurable independently of and prior to*, profit – a computation that violates capital as discounted profit. Hence, the production function fails in its aim of justifying income to capital.[6]

Marxists, on the other hand, argue that the only thing that adds value is human labour in the industrial production of commodities. The first difficulty, which most contemporary Marxists admit is insurmountable, is determining the socially necessary abstract labour time of commodities. And even if that problem somehow could be solved, moving from the so-called 'real' sphere of production values measured in socially necessary abstract labour time to the thing that actually matters most to capitalists: the nominal sphere of money. So far Marxists have been unable either to objectively determine the labour value of commodities, or to translate the value created in the labour process into market prices in general and asset prices in particular, and therefore Marx's attempt to scientifically explain the magnitude of capital breaks down. Marxists also have the (and I believe politically dangerous – see Chapter 9) problem of trying to sort 'productive' workers that generate surplus value from their 'unproductive' counterparts that are said to circulate or consume this value. Put differently, some workers are useful for creating value and the remainder are largely worthless from the point of view of value creation.

For Nitzan and Bichler, these problems are insurmountable and they are insurmountable in their view partly because the theorists prioritize production rather than power. Capitalism is not a mode of production but a mode of power (see glossary). This historical mode of power is rooted in private ownership and the strategic sabotage of human creativity for the sake of accumulation rather than livelihood and community well-being. In their view, capital is not a material entity but a symbolic representation of commodified differential power. It is commodified because ownership claims to income-generating assets – the symbolic representation of capitalist power – are vendible (you can buy and sell them within the limits of the law) and it is differential because accumulation-read-power is a relative phenomena (some accumulate more and faster than others). What gets accumulated in this framework then, is not productive machines or dead labour but power itself, symbolically represented in pecuniary terms:

> Pecuniary earnings, we argue, do not have a material 'source', whether counted in utils or labour time. Instead, they are the symbolic representation of a struggle – a conflict between dominant capital groups, acting against opposition, to *shape and restructure the course of social reproduction at large*. In this struggle, what gets accumulated is not productivity as such, but the ability to *subjugate creativity to power*.
>
> (Nitzan and Bichler 2009: 218)

Furthermore, they argue that the dualities mentioned above are patently unhelpful in approaching the study of capital because 1) envisioning an economy untouched by politics and power is inconceivable; 2) in the final analysis capitalists only care about the nominal realm of prices; and 3) there is no objective way to bifurcate the economy into 'productive' or 'industrial' capital and 'financial' or 'fictitious' capital to start with. This is largely why they claim that capital is 'finance and only finance' (2009: 262). So how do they arrive at this new understanding of capital as commodified differential power? They argue that we ought to understand capital from the point of view of actual capitalists! And since the capitalist viewpoint is gradually imposed on everyone else, the implication is that our starting point should be the central ritual of modern capitalism – capitalization:

> The modern corporate owner does not view capital as comprising tangible and intangible artefacts such as machines, structures, raw materials, knowledge and goodwill. Instead, he or she is habituated to think of capital as equivalent to the corporation's equity and debt. The universal creed of capitalism defines the magnitude of this equity and debt as *capitalization*: it is equal to the corporation's expected future profit and interest payments, adjusted for risk and discounted to their present value.
>
> (2009: 8)

In other words, capitalists want to know how much they should pay now (present value) for an ownership claim (typically stocks or bonds) to a future stream of income. The goal for capitalists is to ensure that their levels of capitalization rise faster relative to other absentee owners trying to do the same – the goal is to accumulate *differentially*, not to meet benchmark returns but *surpass* them. And as Nitzan and Bichler have demonstrated in their work, the way this has been done over the long term is by driving up corporate profit faster than the average.[7] In other words, higher differential earnings typically mean higher differential capitalization (see glossary), or what is practically the same, rising relative share price. So if capitalists are ultimately capitalizing expected future earnings, we should focus on how those earnings are generated and Nitzan and Bichler argue that this is largely a matter of dominant capital (see glossary) exerting power over the social process writ large. Since they see capital as a mode of power, earnings are not a narrow offshoot of material production as in the Marxist and neoclassical interpretation. For example, Facebook's profitability is not solely contingent on its ability to produce a social media platform but on a wide range of factors that all involve the exercise of the firm's power to shape and reshape social reproduction and everyday life from influencing privacy laws, attracting advertisers, targeting adverts, buying up potential competitors, resolving legal disputes, avoiding corporate espionage and the list could continue. The simple, yet powerful point is that Facebook's earnings are not determined by its service provision alone but by the power of its owners and directors to shape and reshape politics, society and culture. This power is what capitalists consider when they capitalize the firm's ability to generate income while the overall capitalization of any given firm can be taken as a measure of the firm's power to shape and reshape social reproduction. The fact that Facebook's opening capitalization garnered in its initial public offering was cut in half in the weeks that followed was a powerful indication that investors lost confidence in Facebook's ability to monetize the site properly and generate the differential earnings implied by the initial differential capitalization.

Two more points are worth considering. First, Nitzan and Bichler argue that capitalist power can be exerted because the institution of ownership allows the owner to exclude others from access to goods or services. Second, contrary to the neoclassical and Marxist schools that view capital as constantly innovative and productive, the authors build on Veblen's [1904] (2005) conceptual distinction between business and industry. In their view, industry or material production can only be a social product and as society grows in complexity it becomes next to impossible to try to isolate individual contributions to production. Industry is concerned with serviceability to the community, workmanship, creativity and livelihood – it is the productive potential of humanity – what we *can* do. Business, however, is very different. Business is concerned with profit and profit alone. As such, it is necessarily counter-productive and must control and partly incapacitate human creativity in order to earn profit in the first place.[8] This may seem counter-intuitive to some readers who look around them and see a world of production, innovation and commodities. But the argument put forward here is not that businesses fail to innovate or that profit would be served by no output, but that business has to strategically incapacitate human endeavour as a going concern. This happens at a general level whereby firms restrict output in return for a mark-up on their goods and services but it also happens at the level of the firm, for example when products are specifically designed to break or become obsolete (Slade 2006).

The rest of this chapter presents the themes and summarizes the contents of the book while the final chapter of this volume considers how this critique is radical and some of its important implications for international political economy. I have also included a glossary of key terms that readers can refer to throughout the text. I refer readers to the glossary when a key term appears for the first time in individual chapters. I now move to the three provocations that frame this collection.

## Part I: The provocation of history

Outside of the ahistoricism of the neoclassical school of economics we find a more historically sensitive and considerably more heterodox political economy (Gill and Law 1988; Palan 2000; O'Brien and Williams 2004). Analytically we could distinguish at least two major historical concerns that have preoccupied political economists. The first is the attempt to historically situate and contextualize key thinkers, ideas and the schools of thought that have informed and constituted political economy since its inception (Winch 1996, 2009; Heilbroner 1999; Perelman 2000; Shilliam 2006; Cohen 2008; Milonakis and Fine 2008).[9] This is the intellectual history of political economy as a discipline. The second major concern, though intersecting with the first in many important ways, is the effort to historicize the emergence and transformations of the global political economy of capitalism (Amoore *et al.* 2000). Of particular importance to scholars here have been the debates on the transition to capitalism and capitalist development (Polanyi 1957; Marx 1976; Brenner 1977; Hilton 1978; Braudel 1982; Wood 2002), the emergence of the modern international order or for some the creation of world system(s) (Abu-Lughod 1991; Rosenberg 1994; Chase-Dunn and Hall 1997; Teschke 2003; Knafo 2006; Lacher 2006; Wallerstein 2011), the rise and decline of hegemonic powers and the constitution of world order and resistance (Cox 1987; Gilpin 1987; Arrighi 1994; 2007; Gill 1991, 2008; Amoore 2005) and the imperialism of North–South relations (Gunder Frank 1976; Stavrianos 1981).[10]

Nitzan and Bichler only address these debates tangentially. This is likely because they are more directly concerned to define what 'capital' is first, given the failures of the neoclassical and Marxian schools to account for prices and accumulation. Since they approach their study from this starting point – what is capital and how should we theorize it? – it is likely that they would say that there is little point in engaging these debates until we have a proper understanding of what it is we are studying when we study the global political economy of 'capital'-ism. An additional reason for this lack of engagement might be the desire of the authors to tell a new history founded upon their understanding of capital as power. In other words, now that we have a new theoretical understanding of capital it becomes possible to see historical developments in a new light just as it was possible to interpret the universe anew once Payne discovered that the sun was mostly made of hydrogen. This might help us explain why Nitzan and Bichler read the history of social formations as transitions from distinct modes of power rather than the historical materialist interpretation that all history is the history of class struggle rooted in the social relations of production.

Still, Nitzan and Bichler do provide us with a general account of the capitalist mode of power's historical emergence (see Chapter 13 of their text).[11] I briefly retrace their stylized history in Chapter 2 of this volume so it will not be summarized here. In my contribution to this volume, I argue that *Capital as Power* is primarily a work of novel theory construction and as such leaves considerable room for further historical investigation and engagements with the literature on the transition to capitalism and the broader global political economy. Accepting their basic premise that capital can be conceived of as a mode of power and that the power theory of value is more convincing than its alternatives, I argue that one way in which to contribute to Nitzan and Bichler's approach is to consider the important historical links between the rise of capitalization, the exploitation of energy resources – particularly fossil fuels – and what I call 'globalized social reproduction', or the extent to which global society is now more dependent on the power of corporations, international markets and the work of strangers for their livelihoods and survival. My argument is that the universalization of the capitalist mode of power and globalized forms of social reproduction would not have been possible without the discovery and use of abundant, affordable and accessible fossil fuels. This does not mean that the exploitation of fossil fuels was historically inevitable or that combusting ancient sunlight had to lead to a specific pattern of world order and development. Rather, what I want to point out is that while not a sufficient cause, the discovery and use of fossil fuels was a necessary and decisive factor in the organization and universalization of capital as power and the way in which corporations and governments are able to structure and restructure society. With this methodological precaution in mind (i.e. avoid energy determinism), I show that increasing capitalization around the world – some $140 trillion in 2010 – directly corresponds with increasing energy availability from fossil fuels and an increase in the value and volume of global trade since the 1960s (my imperfect proxy for measuring global social reproduction). If this historical relationship exists, I argue that the capitalist mode of power is historically exceptional and will likely undergo a general crisis of social reproduction given the non-renewable nature of fossil fuels and concerns that conventional reserves will go into decline early in the twenty-first century. Indeed, while I do not address whether we have reached peak oil or not, I do argue that high oil prices now appear to be a structural feature of the global political economy and are unlikely to come down except in periods of sharp or chronic economic crises. To consider this proposition, I briefly investigate how high oil prices in the 2000s combined with the subprime mortgage crisis in the United States contributed to the massive collapse in global equity markets and a rapid fall in the value and volume of global trade. To many, this recent period of history is known as the Global Financial Crisis or the Great Recession and is widely theorized as being singlehandedly triggered by the subprime mortgage crisis in the United States. However, the crisis could also be read as the birth pangs of a fundamentally new era of high oil prices and reconfigured expectations about the future of economic growth.

However, while this contribution may be considered a small step forward in theorizing the exceptional nature of the capitalist mode of power once the energy base of societies is taken into account, the provocation of history opens up new questions for further research explored in the conclusion of this volume.

## Part II: The provocation of a new theory

It is perhaps banal to suggest that any study of capitalism should be grounded by a distinct and convincing understanding of its basic unit: ‘capital’. Yet, as Cochrane has recently pointed out (see also Bousfield this volume):

> Economists, political scientists, even literary theorists, freely employ the concept, yet few can say what the word ‘capital’ truly signifies. Either unaware of or unconcerned by the serious problems with the Marxist labour theory of value … and the neoclassical utility theory of value, they continue to discuss ‘capital’ as if it were conceptually unproblematic.
>
> (2011: 89–90)

Nitzan and Bichler’s decades of research starts from the very premise that ‘capital’ is not ‘conceptually unproblematic’ and in *Capital as Power* they offer their most comprehensive treatment of why neoclassical and Marxian political economy fail to account for capital and its accumulation (2009: 65–144).[12] Though they have different starting points, the problem for these traditions is rooted in their unobservable yet supposedly measureable basic units (utils and socially necessary abstract labour) combined with their bifurcation of pecuniary accumulation into a ‘nominal’ and ‘real’ sphere. This separation creates two spheres – a productive sphere where all value is created and a distorted or fictitious sphere of pecuniary or financial values that only ‘approximate’ the ‘real’ value of the productive sphere. For Nitzan and Bichler, as for actual investors focused on increasing their relative capitalization, this is patent nonsense. They argue that ‘capital exists as finance and only as finance’ and that when investors capitalize an income stream they are capitalizing the power of that institution to shape the terrain of social reproduction to increase earnings and beat an average rate of accumulation (7). For example, an investor purchasing shares in ExxonMobil is not only concerned about whether ExxonMobil has economically recoverable oil to sell recorded on its books or how fast and efficiently the company can produce its range of petroleum-based products. Our investor would be concerned with a whole range of factors from pollution and drilling legislation in various countries to debates on global warming, US military protection of transit routes and whether the company can gain access to new oil fields. This is because all of these factors and more bear on the earnings or profitability of ExxonMobil. Since investors capitalize *expected future* earnings, rising capitalization relative to other firms in the oil and gas sector would be an indication that ExxonMobil was more successful at shaping the terrain of social reproduction than its rivals.

But since ownership claims to publically listed companies are mostly tradeable, Nitzan and Bichler suggest that in modern capitalism, the exercise of power over society is a vendible commodity and that power itself is symbolically represented in money values. It has long been understood by political economists that money plays three roles in society: a store of value, a unit of account and a medium of exchange. But the third role – money as a medium of exchange – appears to mask one of the central messages of *Capital as Power*: that money is a claim on natural and human resources and evermore money allows one to make greater claims on the labour of others and natural resources. Still, for high net worth individuals (or at the upper echelons of global capital) money is largely symbolic of power since it is not consumed, but rather invested to increase pecuniary returns. So to stay with our example, from the power theory of value perspective, ExxonMobil, with a total capitalization of about US$417 billion in 2011, would be expected to have far more power to shape patterns of social reproduction globally than PTT Exploration and Production of Thailand capitalized by investors at about US$20 billion in 2011.[13] And since ExxonMobil's capitalization was about US$268 billion in 2003, one of the main questions we might ask is how ExxonMobil used its power and political influence to help shape an environment where this 56 per cent increase in capitalization for its investors was possible.

Understanding capital from the point of view of capitalists leads Nitzan and Bichler to jettison neoclassical theories that largely ignore power and Marxist theories that theorize capital and power, so they are able to theorize capital *as* power (2009: 64). Their provocation, then, is not only directed at neoclassical economists and Marxists who, they argue, lack 'a coherent conception of capital' but also challenges scholars to employ their theory to yield new insights about the global political economy of capitalism. The three chapters in Part II of this volume take up this latter challenge and show the way in which the framework offered in *Capital as Power* can lead to an exciting new research agenda with valuable outcomes.

In Chapter 3 Sandy Brian Hager employs the power theory of value approach to offer a unique theoretical-empirical analysis of investment bank power since the intensification of neoliberal policies in the 1980s. While investment banks have been in the global spotlight, particularly since the onset of the Global Financial Crisis, Hager argues that the prevailing literature on investment banking largely ignores 'the central power process in capitalist societies': the accumulation of capital. He finds that the one major exception to this rule is the monopoly capital school of Marxism. For Hager, however, the monopoly school cannot account for, nor can they measure, fluctuations in investment bank power over time. This school of thought also tends to theorize the era of neoliberalism as benefitting the financial industry as a whole without questioning the differential capitalization (see glossary) and power of firms *within* the financial industry. These major shortcomings allow Hager to offer an original analysis of investment bank power throughout the last three decades. He does so by considering differential capitalization and the qualitative ways in which investment banks have sought to enforce their order on society and influence the regulatory process.

Trade and investment liberalization agreements have been one of the chief means through which neoliberal globalization has been realized. In Chapter 4, Jordan Brennan assesses the impact of NAFTA on the Canadian political economy using the twin concepts 'dominant capital' and 'differential accumulation' (see glossary). He finds that measures to liberalize trade and investment were not only frowned upon in early periods of Canadian economic development but also viewed with considerable scepticism by the Canadian public during the pro-liberalization campaign in the era of globalization. In this atmosphere of doubt and suspicion, politicians, economists and corporations had to 'sell' their liberalization agenda 'to the Canadian public on two interrelated grounds: necessity and prosperity.' Without liberalization Canadians were told that accessing markets in the United States would be rendered far more difficult and the Canadian economy would shrink as a result. With liberalization, Canadians were told, employment, growth and prosperity would improve for all. Twenty years after the implementation of trade and investment liberalization in Canada, Brennan asks whether this has been the case. He argues that NAFTA was, both in intention and in effect, a policy which redistributed power through a re-engineering of social space. One manifestation of this power realignment was the redistribution of income from labour (in the form of wages) to capital (in the form of profits) and from the bottom 99 per cent to the top 1 per cent of the income hierarchy.

Continuing to apply the new conceptual tools offered by the capital as power approach, Chapter 5 sees D.T. Cochrane and Jeffery Monaghan offer an innovative examination of the intra-capitalist dynamics of differential accumulation during the North American anti-apartheid movement. Their discussion centres on the Sullivan Principles – a list of six anti-apartheid measures that corporations could sign on and adhere to in their business dealings with South Africa. Using archival research from the International Organization for Equality of Opportunity Principles – a body tasked with administering US corporate signatories to the Principles – Cochrane and Monaghan provide us with an insightful look at how corporations 'viewed their participation in and engagement with the anti-apartheid movement.' Their research strongly suggests that dominant US corporations eventually, and reluctantly, joined the anti-apartheid struggle in an effort to accumulate differentially by controlling what the authors call the 'transformative social processes' of the anti-apartheid movement. Their case study leads them to call for more disaggregated historical analysis of capital so that qualitative processes of social change can be mapped in future studies. Cochrane and Monaghan also conclude with some important lessons for participants in social justice movements struggling against corporate rule.

## Part III: The provocation of critique

As suggested in the outset of this chapter, and as a long string of historical examples attest to, new theories, when noticed, are bound to be controversial.[14] In his brief examination of the resistance to new ideas, the historian A. Bowdoin Van Riper noted the following:

> Revolutionary new ideas – even those that later win wide acceptance – are often met initially with scepticism or outright hostility. Such resistance has many sources. The new ideas may conflict with existing ideas so long held that they are treated as 'common sense'. They may weaken, undermine or overturn cherished beliefs. They may promote, or even demand, new ways of doing things that disrupt existing organizations and render hard-won experience obsolete. Finally, they may be disturbing simply because they are new; humans tend, both as individuals and as societies, to fear and resist significant change.
>
> (2002: 135)[15]

Indeed, early in their careers most scholars are socialized into a research programme with a particular set of assumptions – often unexamined – that are taken as incontestable 'common sense'. Their research will almost certainly be encouraged by their educators and peers working in the same tradition so long that the 'hard core' of the theory is never challenged. In the beginning stages, to question this 'hard core' is to invite resistance and ridicule at best, demotion and ostracization at worse. However, without engaging debates in the philosophy of science, most might agree with the proposition that insightful developments in the natural and social sciences – for better or worse – come from questioning long-held beliefs about how 'things' work. Nitzan and Bichler's *oeuvre* certainly fits well within this scientific tradition of questioning basic assumptions. Unsatisfied with their findings, they provide scholars of political economy and other fields of knowledge with a new set of assumptions, new methods and an innovative new theory of capital as power. Their use of qualitative and quantitative research methods has already yielded impressive results on the way in which dominant firms and leading government organs structure and restructure the global political economy to their advantage – largely to the detriment of alternative and perhaps more humane and creative forms of production and social reproduction. However, without discounting their achievements, this does not mean that they are right or that all political economists are or will be convinced by their ideas. At minimum, what they have done is offered a new approach to study capitalism as 'finance and only finance' and this is why we argue that their approach should be critically engaged with – particularly given the long standing dualism between production and finance and the burgeoning literature on so-called 'financialization' (Epstein 2005). It is likely that scholars may agree with some of their insights and concepts such as 'differential accumulation' but have difficulties accepting their general theory of capital as power and its theoretical as well as political/practical implications. For example, Marxists may have difficulty eschewing the labour theory of value and accepting the power theory of value in its stead because doing so would mean abandoning the concept of exploitation linked to surplus value or profit. If the source or root of capitalist profit is not the exploitation of human labour-power, then what is the point of revolutionary action to overturn the capitalist system? Put in another way, what grounds might we have for radical critique and progressive social transformation if not the economic exploitation of labour thought to occur during the process of production? Still, there are others who will agree with the general idea that capital is power and that a power theory of value approach is convincing and much needed. They may, however, take issue with some of the new concepts introduced by Nitzan and Bichler such as 'creorder', 'the state of capital', or 'regimes of differential accumulation' (see Chapter 7). In sum, by writing *Capital as Power* and challenging the edifice of mainstream as a well as critical political economy, Nitzan and Bichler have given an open invitation to their peers to engage with and critique their work.

Part III of this collection consists of three engagements with *Capital as Power* that respond to the provocation of critique. Although sympathetic to the power theory of value, in Chapter 6 Dan Bousfield argues that there is a tendency within *Capital as Power* to ignore how social struggles and resistance help constitute and reconstitute capitalist power and human subjectivities. Bousfield wants to draw our attention to the complexity and international dimensions of power as well as the role played by belief in reinforcing capitalist practices. He argues that if we confuse the complexity of power and resistance with Nitzan and Bichler's understanding of power as merely 'power over', then the role of belief is largely 'allocated to the position of the capitalist investor'. What this means for Bousfield is that we lose sight of the social or how subjective beliefs are actively experienced, created and recreated in everyday life under capitalism. To illustrate this point he considers how participating in anti-capitalist protest sites such as the Occupy Wall Street movement and G20 protests can help challenge our beliefs in the inevitability of our current situation and help us imagine the possibility of a life beyond capitalism.

In Chapter 7, Sean Starrs takes issue with Nitzan and Bichler's attempt to introduce a novel concept: the state of capital. While Starrs is convinced by Nitzan and Bichler's critique of political economy and especially of the necessity to overcome the false dichotomy of politics and economics, he believes that their effective repudiation of all existing state theory leads to an inadequate conceptualization of the global political economy. This is because, Starrs argues, the state of capital fails in three respects: 1) it does not allow for divergent non- or anti-capitalist logics operating within government apparatuses; 2) it cannot account for the continued centrality of the nation-state, geopolitics and the nationality of capital in the global political economy; and 3) the inclusion of the 'leading government organs' in its central building block, dominant capital, is theoretically and empirically unclear. Starrs attempts to demonstrate these supposed failings in part by drawing upon the developmental states of East Asia as well as the policies of the United States. He hopes to provoke the provocation by arguing that we can overcome what he sees as failings of the state of capital while at the same time retaining key insights of *Capital as Power*, by reconceptualizing a theory of the state that in part draws upon aspects of neo-Marxian state theory but more importantly tries to move beyond its perceived shortcomings.

In Chapter 8, Samuel Knafo, Matthieu Hughes and Steffan Wyn-Jones focus their attention on Nitzan and Bichler's conceptualization of power. The authors argue that while the emphasis on power in the analysis of accumulation is a welcome contribution, Nitzan and Bichler's conception is not properly attuned to the dynamic and relational nature of power under capitalism. They begin their critique with the concept of 'sabotage', averring that it provides a welcome corrective to alternative 'productivist' approaches. But according to them, the emphasis on 'sabotage' is too narrow to grasp the complex set of practices based on power which feed into differential accumulation. Moreover, sabotage highlights the distribution of power rather than the qualitative and historical form power takes, which, for the authors, is the real riddle of political economy. As a result, they argue, Nitzan and Bichler end up with a reductionist understanding of the power struggles that animate capitalism.[16] For them, this is reflected in the concept of the 'commodification of power', which reifies power as a thing to be possessed rather than a relationship to be negotiated. This idea which underpins much of the empirical analysis of Nitzan and Bichler shows that they 'do not hold themselves accountable to the [same] analytical standard they impose on Marxian and neoclassical economics' since one cannot directly observe a 'unit of power'. As a result, one is left with a metaphysics of power which is not properly grounded in empirical evidence, in the same way as the orthodox labour theory of value fails to capture abstract labour as an empirical reality. In order to fulfil the promise of differential accumulation as a concept and the project of a political economy fully based on power, Knafo, Hughes and Wyn-Jones return to Marx's notion of 'social relation' in order to highlight its *methodological* implications. According to them, overcoming the dualism of political economy requires a new method for analysing capitalism rather than a new ontology of power as proposed by Nitzan and Bichler.

In the final chapter of this volume we move from the concept of provocation to that of interrogation. More specifically, I ask three key questions. First, I ask whether the capital as power framework can contribute to an analysis of what Occupy Wall Street has labelled the 1%. The 1% moniker may be conceptually arbitrary, but it does serve as a powerful rallying target for those struggling for social justice and an alternative economic system. Such an order would presumably benefit the majority of the world's citizens rather than a small handful of capitalists and their symbolic accumulation of wealth. The second line of inquiry focuses on the concept of 'exploitation'. Unlike Marxists, Nitzan and Bichler do not use this concept to justify their advocacy of systemic economic transformation – and the concept hardly figures as central in their work. Without the concept of exploitation, how might the approach of capital as power provide a convincing argument for a radical praxis and critique of capitalism? Does it offer a more radical critique of capital than its Marxist challengers? Debateable answers to these questions are followed by a third line of interrogation that puts the spotlight on International Political Economy (IPE) and the gaping hole at its centre: the lack of a rigorous and convincing analytical definition of 'capital' and what exactly gets accumulated. Borrowing from Shilliam (2004) I argue that this is IPE's 'unfashionable problematic' given that the field as a whole has largely taken the concept for granted. Engaging with the capital as power framework, I argue, may be an important way to help redress this shortcoming in the literature and a possible reason for the methodological and theoretical divisions within IPE.

## Notes

1 I would like to thank the contributors to this volume for their valuable feedback on this chapter, particularly the thoughtful comments made by Sean Starrs. The usual disclaimer applies.
2 The homepage for the Occupy Wall Street movement can be accessed at http://occupywallst.org/about/ (accessed February 6, 2012).
3 The homepage for the series can be found here: http://www.ft.com/intl/indepth/capitalism-in-crisis The new series is reminiscent of the *FT*'s series on anti-capitalism launched in 2001 as protests against neoliberal globalization were surging around the world and the dot.com economy was blowing up in accounting scandal after scandal (accessed February 6, 2012).
4 The neoclassicals would later tack on to means of production knowledge and technology as additional incarnations of capital.
5 Marx writes: 'The labour time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time … We see then that that which determines the magnitude of the value of any article is the amount of labour socially necessary, or the labour time socially necessary for its production' ([1867] 1976: 28).
6 There are of course more problems with the neoclassical and Marxian schools but see Nitzan and Bichler (2009) Part II for the full critique.
7 The government's power to tax is also capitalized through its national debt – and the national debt, as Marx noticed long ago, was the heart of capitalist finance. For a discussion see Bichler and Nitzan 2004; Nitzan and Bichler 2009: 295ff and in relation to the US national debt and militarism see Di Muzio 2007.
8 There is little doubt that Marx understood that capitalists sometimes sabotage production for the sake of accumulation, but this was largely an aberration for Marx during periods of crisis:

> It is enough to mention the commercial crises that, by their periodical return, put the existence of the entire bourgeois society on trial, each time more threateningly. In these crises, a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of over-production. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed. And why? Because there is too much civilization, too much means of subsistence, too much industry, too much commerce.
>
> (1848: 7)

For Nitzan and Bichler strategic stabotage is a permanent and inherent facet of business and accumulation.

9 This is by no means an exhaustive list but representative of the literature in this vein. The literature on the history of economic thought is of course important but I do not reference the bulk of this literature here because it does not expressly identify as *political* economy. See also the Duke University sponsored journal: *History of Political Economy* and the History of Economic Thought website housed at the New School for a more analytical breakdown of political economy schools. http://homepage.newschool.edu/~het/thought.htm (accessed December 10, 2011).
10 As above, this is by no means an exhaustive list but should be taken as a representative sample of the literature.
11 They also provide us with a brief 'anthropology' of capitalization as the dominant ritual of modern capitalism (2009: 147ff).
12 One reviewer of *Capital as Power* writes: 'I was highly skeptical before I read the book … I was surprised, then, to find that I was largely persuaded that in some important sense capital *is* power, and that this view implies a rigorous, empirically sound research program that yields highly useful results' (Larudee 2011: 418).
13 Figures are taken from the Financial Times Global 500 2003 and 2011. http://media.ft.com/cms/33558890-98d4-11e0-bd66-00144feab49a.pdf and http://specials.ft.com/spdocs/global500_fourthquarter_2003.pdf (accessed December 26, 2011).
14 See for example the exchange between Nitzan and Bichler with Kliman (2011).
15 See also Nitzan and Bichler's response to Retort, 'The Scientist and the Church', July 2005 http://bnarchives.yorku.ca/185/01/050731NB_The_Scientist_and_the_Church.pdf (accessed December 15, 2011).
16 For example, the authors note that it would be interesting to see how Nitzan and Bichler might explain the rise of Fordism.

# Part I

# The provocation of history

# 2 Historicizing capital as power

## Energy, capitalization and globalized social reproduction

*Tim Di Muzio*

Building on their previous research, Nitzan and Bichler's *Capital as Power* (2009) offers a more fully developed theoretical account of their innovative approach to the study of capital as power.[1] In their work, the authors provide a limited, albeit suggestive, historical sketch of the transition to capitalism as a mode of power (see glossary). Despite this sketch, *Capital as Power* largely remains a work of novel theory and therefore a way in which to conceptualize 'really existing capitalism' anew in the present. Insofar as this is the case, the text leaves considerable room for further historical investigation and development. My contribution in this chapter seeks to build on Nitzan and Bichler's historical sketch by considering the close interconnections between energy, capitalization (see glossary) and what I call globalized social reproduction. I use the term 'globalized social reproduction' as a heuristic to imagine the ways in which the production, consumption and reproduction of our lives and livelihoods have become ever more internationalized and interconnected so that few people in this world can reproduce their lives and lifestyles without depending on global markets and the labour power of strangers. The main argument of the chapter is that the universalization of the capitalist mode of power and patterns of energy-intensive globalized social reproduction cannot be separated from the discovery and use of abundant, affordable and accessible fossil fuels.[2] Put differently, capital as a mode of power and its attendant forms of globalized social reproduction should be understood within a broader historical context that takes the role of energy sources, supply and use as fundamental to the constitution and reconstitution of the global political economy.[3] My contention here is that the nearly universal transition to the capitalist mode of power and the meteoric rise of capitalized assets would not have been possible without the discovery and combustion of the surplus energy provided by fossil fuels. In order to substantiate this argument, this chapter is divided into three main sections. To begin, I provide a summary of Nitzan and Bichler's genealogy of capital and note how their cursory interpretation largely misses the role of energy in the constitution and reconstitution of capital as a mode of power (but, see 2002). I argue here that such recognition would enrich and embolden their theoretical account of capital as power since it also helps us to explain globalized forms of social reproduction that are largely shaped and reshaped by dominant capital or those firms with the highest levels of market capitalization, typically facilitated by government organs.[4] In the second section, I provide a sketch of how we might begin to understand the intimate links between the rise of capitalization, energy and forms of globalized social reproduction. Admittedly, what I offer here is only a few extra pieces to a much larger historical puzzle – one that calls for additional research, particularly on the interface between changing social property relations and energy. Put simply, I hope this initial work leads to a more comprehensive research agenda that can be accomplished within the theoretical framework offered by Nitzan and Bichler. In the final part of this chapter I consider what I call the capitalization-energy-social reproduction nexus and what it might mean for the study of the capitalist mode of power and the future of the global political economy.

## The emergence of capital as power

In *Capital as Power*, Nitzan and Bichler offer an empirically rich and ground-breaking theoretical account of capital – not as a mode production, but as a mode of power. They convincingly demonstrate how the two major theoretical traditions of political economy – neoclassical economics and Marxism – cannot provide a satisfactory understanding of capital and its accumulation. Though the critique of each school differs, the common conclusion is that neither tradition of thought can account for the basic unit they wish to study and explain: capital.[5] These shortcomings lead Nitzan and Bichler to develop new concepts, new methodological tools and ultimately a new theory – not of capitalist society in general – but of how the minority capitalist ruling class understands reality and imposes its order on the majority of humanity. Capitalists do this to increase their social power relative to the rest of humanity but can only accomplish this by sabotaging more creative, cooperative and democratic forms of production and social reproduction (21). However, a new theoretical account of capitalist sociality worth its weight, if it is not to remain in the realm of high abstraction, should never be far from an historical account worth its salt. In other words, a convincing theory of capital as power should be substantiated by a convincing historical account of the transition to capital as a mode of power. And not surprisingly, Nitzan and Bichler's theory is informed by a critical, albeit cursory, reading of this historical transition.

In broad brush strokes and as a general account of capital's emergence, their stylized history of capital as power is both convincing and suggestive. They begin by offering what they call a brief anthropology of capitalization, the dominant ritual or algorithm at the centre of the capitalist mode of power and the chief means by which asset prices are generated and articulated to shape and reshape the social order (153). In part, this is because the world does not necessarily appear to capitalists as made up of qualitatively different commodities but as an architecture of prices that represent those commodities and expectations about the future. However, for most of human history, the global population remained intensely rural and were not reliant on market relationships for their survival (Polanyi 1957; Wolf 2010). Put another way, most of humanity provided for themselves and their families outside of the price system of the market.[6] Though undeveloped in their account, Nitzan and Bichler do recognize that the mass waves of migration to cities from the rural countryside signalled the arrival of the price system and dependence on the market for social reproduction and survival (151–2). This demographic transition only accelerated after 1900 which gives us some indication of how historically exceptional capital is as a global mode of power if urbanization is used as a rough proxy for the spatial expansion of the price system and market dependence. Continuing with this demographic shift, by 2050, UN HABITAT estimates that 79 per cent of humanity will live in urbanized centres, the vast majority in informal settlements or what are colloquially called slums (Di Muzio 2008).[7]

In its simplest form, capitalization is the process whereby investors discount a future stream of risk-adjusted income to represent it as a present value. Though the emergence of capitalization as a social process can be traced to earlier periods in human history, Nitzan and Bichler argue that the first 'systematic rules of discounting' were not mathematically worked out until the mid-nineteenth century when German foresters tried to 'figure out how they should value wooded land and the associated activities of planting and harvesting' (155–6). Over the next decades, the mathematical underpinnings of capitalization were developed further by economists so that by the twentieth century, capitalization became a 'fully fledged ideology, complete with detailed bureaucratic procedures, a rigid ethical code and trained professional cadres…' (155). With the birth and universalization of the national debt, the ascendancy of the modern publically traded corporation, the rise of financial markets and institutional absentee investors, Nitzan and Bichler argue that the ritual of capitalization has now achieved global dominance. Put simply, financial actors understand the value of all the world's assets in one language – the language of commodified power expressed in monetary units.

But their account of capitalization as the central mathematical ceremony of capitalist society is complemented by their historical sketch of the transition to the capitalist mode of power. Since the authors are concerned with modes of power rather than modes of production, a proper understanding of this emergence must begin with the mode of power that preceded capital: feudalism (282).

For Nitzan and Bichler, capital as power emerged within the womb of the feudal mode of power in Europe (282ff). This mode of power was characterized by recurrent violence, hierarchical privilege based on nobility, vassals working the land to supply knights and overlapping bonds of military obligation between lords and vassals. Growing up alongside the social relations of this mode of power, however, was the economy of the bourg – an exceptional commercial space – granted certain royal liberties and immunities from feudal strictures. If the major ritual of the feudal mode of power was war for the sake of conquest, loot, religious conviction, honour or some combination of the four, the major ritual of the bourg was the capitalization of local and long-distance trade and the accumulation of pecuniary values. Over time, merchants operating in the bourg not only came to amass far greater fortunes than the nobility who largely shunned business enterprise, but they also understood how to manipulate prices to their advantage. As the monetization of the economy crept deeper into every corner of the social order and the cost of war continued to mount, the nobility came to rely increasingly on their wealthy subjects to finance their exploits. This ultimately led to struggles for political representation ushering in, in fits and starts, liberal revolutions and the subordination of royal authority to the propertied or, in some cases, its complete obliteration in the foundation of new republics. According to Nitzan and Bichler, and following Marx's cue, the major advance of the capitalist mode of power was made with the creation of the *privately owned* 'national' debt – the heart of global finance to this day (295).

While as a broad sketch Nitzan and Bichler's stylized interpretation of the rise of capital as power is convincing, it leaves considerable room for further historical investigation.[8] And further investigation, if proven useful, should feedback on their original theorization of capital as power. While there are certainly a number of historical avenues in which to explore further – what I want to focus on here is how abundant, affordable and accessible fossil fuels made the transition to a more *universalized* capitalist mode of power and globalized forms of social reproduction possible. This is not to succumb to a form of energy determinism (i.e. that the discovery and use of carbon energy *had to* lead to a definite form of social and world order). But it is to suggest that energy undergirds all life forms and patterns of social reproduction and these energy sources, along with their use, have been both *quantitatively* and *qualitatively* different historically (Smil 1994). I also recognize that energy transitions as well as energy regimes are always constituted in historical struggle – a tale too vast to retell here given my attempt to establish the links between capitalization, social reproduction and energy at a general level of inquiry.[9] So what I do claim is that for political economy to ignore energy transformations and the overall importance of energy to social reproduction is to miss a big piece of the capitalist puzzle, not to mention human history more generally. It would be akin to describing photosynthesis – the vary basis of life on this planet – without discussing the sun. So my argument here is not that energy determines specific patterns of human development and social reproduction but that energy and social reproduction should be theorized as an interactive relation that sets a horizon on what is humanly possible and achievable. In the following section I provide a sketch of how we might begin to understand the interactive relationship between the rise of capitalization, energy and forms of globalized social reproduction.

## Fossil fuels, social reproduction and the rise of capital as power

While early forms of regularized capitalization can be traced back to the fourteenth century Italian city-states, Nitzan and Bichler have argued that capitalization and thus the capitalist mode of power, only really came into its own in the twentieth century. And indeed, if the astronomical growth in global capitalization and the institutions that support capital as power are the leading indications, they would have to be right. According to the only major historical study of the global securities market, by 1910 the value of all outstanding government and corporate securities was an estimated £32.6 billion or in inflation adjusted US dollars in 2011, just over US$4.7 trillion.[10] According to Michie (2006: 10), these outstanding securities were owned by some 20 million investors from around the world. Out of a UN estimated population of 1.75 billion in 1910, this means about 1 per cent of people owned *all of* the world's capitalized assets (UN Population Division 1999: 5). If we consider a snapshot of the global bond and securities market today we find that the level of outstanding capitalization is US$140 trillion.[11] Expressed as a rate of change from 1910 to 2011, global capitalization has increased at a rate of about 2,878 per cent. In other words, in an incredibly small time period – just over 100 years – there has been a massive explosion in the valuation of income-generating assets around the globe.[12] By extension, this also suggests that there has been massive inflation in global expectations because capitalization is a claim on *future* earnings.

Global public or government debt accounts for about 29 per cent of this figure with roughly US$40 trillion outstanding and growing by the second. Two countries – Japan and the United States – with a total population of about 435 million account for just about half of this figure.[13] Domestic and international corporate and financial bonds make up about 32 per cent of total global capitalization at US$45 trillion.[14] And according to the World Federation of Exchanges – the association of 52 publically regulated stock, options and futures exchanges – the global equities market was valued at US$45 trillion in September of 2011, making up about 32 per cent of total global capitalization on the bond and stock markets.[15] The institutions that support the global market in capitalist power have also grown in numbers. For example, the number of central banks rose from 18 in 1900 to 59 in 1950 and then during waves of decolonization to 172 by 1999 (Michie 2006: 4). The number now stands at 180.[16] The number of stock exchanges has also grown from the first modern exchange trading shares in the Dutch East India Company in seventeenth-century Amsterdam to 102 exchanges around the world.[17] According to Credit Risk Monitor, the number of publically listed companies worldwide has also ballooned to 74,256, up from only a handful of precursor joint-stock companies in the seventeeth century. These capitalized institutions operate within and across 12 sectors of the global economy: basic materials, capital goods, conglomerates, consumer cyclical, consumer non-cyclical, energy, finance, health care, services, technology, transportation and utilities.[18]

So if the emergence and universality of the capitalist mode of power is evinced by the massive increase in capitalization and some of the key institutions that support and facilitate its ubiquitous growth, then as a way of commodifying the unequal and undemocratic forms that structure and restructure social reproduction, capital as a ubiquitous mode of power is relatively recent and historically exceptional. And here I would like to suggest that a focus on carbon energy resources helps us to account for this exceptional nature and quite possibly the collapse of capital as a mode of power – at least insofar as we know it.

In other words, I want to argue that the exploitation of fossil fuels was a necessary, though not sufficient, cause for the proliferation of capital as a mode of power and globalized patterns of social reproduction (UNDP 2000). I call this the capitalization-energy-social reproduction nexus.

One way to approach this interconnection is to consider the role played by coal in igniting a sustained English industrial revolution and the world's largest formal empire. Previous to the mass exploitation and consumption of coal measures, England, like most of the rest of the world, was an organic economy reliant on insolation and plant and animal life for any improvement in social reproduction.[19] Growth could be achieved from time to time, but it was always arrested by organic physical limitations such as the amount of forest and the time it took for new trees to grow. As Wrigley (2010) points out in his important study, the earliest and most famous political economists – Smith, Malthus and Ricardo – all recognized the limits to growth. Wrigley's argument and the one followed here is that while a consideration of all the factors that led to the industrial revolution are important, it is worthwhile to focus on the one critical factor that allowed the revolution to be sustained. His hypothesis is that without coal as an energy source, the English industrial revolution and economic growth would have been impossible to sustain. This does not mean that the combustion of coal was a sufficient cause of the industrial revolution but it does mean that it was a decisive and necessary ingredient. This is reflected in the rising consumption of energy derived from coal in England, Wales and Scotland from 1560 to 1859. In the 1560s, coal made up about 10.6 per cent of total energy consumption while at the end of our period it made up 92 per cent of total energy consumption (Wrigley 2010: 37). Of the historical statistics available on the exploitation of coal, England and Wales went from consuming 65,130 terajoules of energy in the mid-sixteenth century to consuming 1,835,300 terajoules by the mid-nineteenth century (Wrigley 2010: 94). In 2008, the total final energy consumption of the UK was roughly 9.8 exajoules or 9,800,000 terajoules.[20] Such an ostensible dependence on coal energy for social reproduction and industrial development inspired the economist W.S. Jevons to pen *The Coal Question* in 1865. Jevons argued that Britain's coal supplies would one day deplete, causing a general British decline:

> Day by day it becomes more evident that the Coal we happily possess in excellent quality and abundance is the mainspring of modern material civilization. As the source of fire, it is the source at once of mechanical motion and of chemical change. Accordingly it is the chief agent in almost every improvement or discovery in the arts which the present age brings forth … Coal in truth stands not beside but entirely above all other commodities. It is the material energy of the country—the universal aid—the factor in everything we do. With coal almost any feat is possible or easy; without it we are thrown back into the laborious poverty of early times … This question concerning the duration of our present cheap supplies of coal cannot but excite deep interest and anxiety wherever or whenever

> it is mentioned: for a little reflection will show that coal is almost the sole necessary basis of our material power, and is that, consequently, which gives efficiency to our moral and intellectual capabilities. England's manufacturing and commercial greatness, at least, is at stake in this question, nor can we be sure that material decay may not involve us in moral and intellectual retrogression.
>
> (1865: 5)

This quote not only illustrates Jevons' recognition that non-renewable coal was the key material source of England's industrial progress but also intimates how it shaped new ideas about intellectual and moral progress. In other words, what many consider to be material and moral advances are likely due, in part, to the surplus energy that has fostered a wider division of labour and new scientific discoveries.

However, in spite of Jevons' concern over coal supplies, the general decline he feared was largely averted in the twentieth century when coal miner militancy gave British leadership a reason to rely more heavily on oil (Podobnik 2006: 38ff).[21] The discovery and exploitation of North Sea oil in the 1960s and 1970s heightened the UK's reliance on petroleum. What is telling, however, is that the consumption of coal as a proportion of total fuel consumed was only reversed in the mid-twentieth century when oil and natural gas were more fully exploited at home and abroad. As of 2010, the share of fossil fuels in total energy consumption in the UK consists of: coal 1.7 per cent, gas 34 per cent, and oil 43 per cent – just under 80 per cent of total consumption (UK Energy 2011: 10).

Though we can only draw suggestive connections here, this mounting energy consumption corresponded with an equally massive rise in capitalization on the London Stock Exchange (LSE).[22] By 1840 the estimated value of securities outstanding on the London market was £1.3 billion. Of this figure, 89 per cent of securities traded were accounted for by the public debts of governments in Britain and abroad. In other words, the largest financial game in the world was the capitalization of the state's power to tax its citizens. In 1900, the paid up capital of quoted securities on the LSE stood at £7.6 billion (Michie 1985: 62 and 80). By 1981, the total market value of listed companies was roughly £323 billion and by 1986, market capitalization finally stretched beyond the £1 trillion mark, inclusive of foreign firms listed on the exchange.[23] In 2011, this figure now stands at about £3.4 trillion with 2,613 listed companies divided into 39 sectors.[24] In other words from 1840 to 2011, the growth in market capitalization on the London Stock Exchange as well as the forms of power capitalized by investors increased dramatically.[25] The rate of growth for this period (1840–2011) is a staggering 261,438 per cent and involved the listing of domestic as well as, and perhaps more importantly, international companies.[26] Behind these figures lies an entire history of capital as a mode of power in Britain and its global empire from the capitalized transatlantic slave trade and the conquest of India to the Opium Wars, the disciplining and punishment of labour and the decline of British imperial power. But along with increasing energy consumption and mounting capitalization we also find that the UK's reliance on international markets for its social reproduction has intensified. There is of course no index for measuring global social reproduction – the extent to which our lives and lifestyles depend on global markets and the labour of strangers.[27] However, a reasonable proxy would be a country's participation in global trade. From 1969 to August 2011, the UK's exports increased from roughly £30 billion to £407 billion and imports increased from about £30 billion to £426 billion.[28] Furthermore, in the ten years from 1998–2008 the UK's exports of goods and services increased by 99.8 per cent while its imports increased by 111.5 per cent.[29] As a percentage of GDP, the UK's international trade stands at just under 60 per cent in both 2000 and 2007 (OECD 2010: 59). These figures suggest a strong dependence on global markets for the fulfilment of social reproduction in the UK. For example, 'the UK must import almost all its copper, ferrous metals, lead, zinc, rubber, raw cotton and about one third of its food.'[30] One can only imagine what adjustments to livelihoods and lifestyles would occur in the UK should imports and exports be significantly diminished. So while I do not offer an exhaustive treatment here, the evidence suggests an intimate relationship between access to affordable fossil fuel energy, rising capitalization and patterns of social reproduction reliant on global markets.

If we move from the UK to the global political economy, the history of the rise of capitalization and global forms of social reproduction is clearly mirrored by increasing energy use over time and the growth in total primary energy supply. To consider energy use, it is estimated that pre-agricultural societies used 10 gigajoules ($10^9$) yearly while nineteenth-century industrializing England consumed an estimated 100 gigajoules per capita (Smil 2010: 711–12). In 2008, the International Energy Agency reported that the total final energy consumption for the world was about 352,863 gigajoules of energy.[31] The world's total primary energy supply has also jumped exponentially from 10 EJ in 1750 to almost 100 EJ in 1900 to roughly 515 EJ in 2008 (Smil 2010: 712).[32] Perhaps not surprisingly, fossil fuels account for the overwhelming share in both consumption and total primary energy supply. According to the IEA, fossil fuels make up 81.3 per cent of global energy supply and 67 per cent of global total final consumption (IEA 2010: 6, 28). What this suggests is that the explosion in capitalization to the tune of US$140 trillion has coincided with the increasing, albeit radically unequal, supply and consumption of fossil fuel energy (Smil 2010: 715). Indeed, if the capitalist mode of power can be considered a new form of civilizational order, it could appropriately be called a petro-market civilization (Gill 1995; Di Muzio 2011). If we consider the volume of world trade in merchandise and commercial services as a proxy for 'globalized social reproduction' we would also find that livelihoods and lifestyles are also more interdependent and globally interconnected at least since the 1970s if not before. In fact, it appears that the World Trade Organization is so baffled by the transnationalization of production that it is currently clamouring for new conceptual tools to capture these global supply networks:

> Today, companies divide their operations across the world, from the design of the product and manufacturing of components to assembly and marketing, creating international production chains. More and more products are 'Made in the World' rather than 'Made in the UK' or 'Made in France'. The statistical bias created by attributing the full commercial value to the last country of origin can pervert the political debate on the origin of the imbalances and lead to misguided, and hence counter-productive, decisions. The challenge is to find the right statistical bridges between the different statistical frameworks and national accounting systems to ensure that international interactions resulting from globalization are properly reflected and to facilitate cross border dialogue between national decision makers.[33]

Currently, the volume of the merchandise and commercial services trade is valued at US$18.9 trillion.[34] This figure is up from 1950 when exports of world merchandise were just under the US$500 billion mark (Rodrigue *et al.* 2009: 147). We could add to this the estimated hundreds of billions of dollars in yearly global remittances that stem from geographically extensive circuits of feminized survival – amounts that exceed official development aid budgets (Sassen 2002).[35] And the recycling of petrodollars remains an understudied, but overwhelmingly significant facet of globalized social reproduction – particularly now when high oil prices seem to be a structural feature of the global political economy (Spiro 1999; Higgens *et al.* 2006).

But the relationship between energy, capitalization and globalized forms of social reproduction also means something far more important than realizing their growth over a very short period of time. Since investors capitalize *expected* future earnings, the current level of total global capitalization can also be read as an indication that investors believe that this form of civilizational order will not only be reproduced but also extended into the future. Doubt concerning the future is met with a swift de-capitalization of equities and other more risky assets and a run to conventional 'risk free' assets such as highly graded government bonds and gold.[36] Given that fossil fuels are non-renewable energy sources and the current recognition among many that the peak of conventional global oil production may have already past, we may be entering – to borrow from Polanyi's (1957) lexicon – a second great transformation where high energy prices threaten global trade patterns, reorient expectations about the future and devastate the overall level of global capitalization as expectations about future growth and profit are readjusted downward (de Almeida and Silva 2009). These will be the whimpers and perhaps bangs of a world order entering a post-carbon energy future, a world order where no known or foreseeable energy resource will be able to reproduce global society at its current level of production, consumption and exchange. In other words, a civilizational order premised upon non-renewable energy resources is itself non-renewable. In the following section I consider what I call the capitalization-energy-social reproduction nexus and what it might mean for the capitalist mode of power and the future of the global political economy.

## The capitalization-energy-social reproduction nexus and the next great transformation

Before continuing, it is worthwhile to recapitulate my argument. So far I have argued that Nitzan and Bichler's account of the transition to the capitalist mode of power largely misses the close interactive relationship between energy, capitalization and social reproduction. With this shortcoming noted, I then argued that the exploitation of non-renewable fossil fuels was a necessary, though not sufficient cause for the explosive rise in global capitalization and forms of global social reproduction. So if the harnessing of fossil fuels enabled the universalization of the capitalist mode of power, principally by bringing online more machine capacity to do work and therefore more power to shape and reshape the landscape of social reproduction, then what might we reasonably hypothesize about a future where carbon energy is less affordable, abundant and accessible?[37]

And here I would like to mention briefly some of the major voices in the debates while keeping in mind that none of the authors listed here has approached the question from the perspective of capital as power. According to Klare (2009) we can expect protracted and relatively predictable resource wars between past great powers and their emerging competitors who seek to attain the same level of development as the West if not surpass it. Friedrichs (2010) has used historical case studies to help inform us on how different societies may react to peak oil. For Heinberg (2003; 2011) we can expect the end of economic growth and thus an end to industrial civilization as we know it. But while Heinberg recognizes the potential for widespread civilizational disorder his message is more hopeful: if global society awakens and adjusts its patterns of social reproduction in time, the transition to a post-carbon world order does not have to lead to open conflict and strife. For Campbell (2002) peak oil means the likely dissolution and collapse of accepted centralized political structures, a mass die-off of the global population and a political and economic reorganization of society that may bear witness to new forms of feudal-like social organization. For Mulligan (2010) diminishing supplies of oil throws the international institutions of global liberalism, including the 'civil peace' in the democratic heartland of capitalism, into serious question. And according to Jeff Rubin (2009), a former chief economist of one of Canada's largest banks, high energy prices will lead to the development of more local production and distribution networks or put in another way, an end to globalization. It should be noted that these forecasts are not necessarily discreet future scenarios.

But from the point of view of capital as a mode of power and theorizing prospects for the future of the global political economy, I would suggest that at least two things could be done. First, we could consider some of the most important forms of social reproduction that preceded the fossil fuel revolution and the rise in capitalization with those that attended it. In other words, if the first great transformation was the rise of a global market civilization of commodified power fuelled by inexpensive carbon energy, the second is likely to be its reversal and retrenchment. Examining these major transformations in line with energy, capitalization and social reproduction (e.g. the transition from rural livelihoods to sub/urbanization, the massive rise in global population, mass proletarianization, etc.), however, would take us too far afield in a chapter of this length. But there is a second way we might get a glimpse into our potential collective future and that is to consider the recent oil price shocks in relation to capitalization and world trade (our imperfect proxy for globalized social reproduction).

It has been fairly well established that drastic increases in the price of oil can precipitate major recessions (Hamilton 2009; Heinberg 2011: 169 for a summary). Yet growth is a backward-looking indicator since we only know whether the economy has grown or shrunk after the fact. While they certainly rely on past knowledge, investors/capitalists are taught to look forward and this is one of the main reasons why considering market capitalization rather than growth alone is important. To put it another way, when investors/capitalists discount a future stream of income into a present value, their expectations regarding growth (and other factors) should already be calculated into the asset price. So since capitalization is an all encompassing process we should look at it as an indication of how confident investors are in a firm or government's ability to shape the terrain of social reproduction differentially. With this in mind, I now turn to an analysis of oil price, global capitalization and world trade.

From 2002 to 2008 the price for a barrel of oil skyrocketed from US$25 to US$132 – an increase of 428 per cent.[38] As suggested by Hamilton (2009) the transfer of trillions of dollars from oil-importing countries to oil-exporting countries is not demand neutral for oil-dependent economies. In fact, 'every increase in the price of oil keeps money from being spent for some other purpose, and in that sense harms the economy' (Whipple 2010: 5). This is true but the flipside is that rising oil prices serve to concentrate more income into the hands of those who control and capitalize oil. For example, as investors chased record-breaking earnings, the share price of ExxonMobil went from about US$31 in 2002 to US$93.69 in 2007 – an increase or return of 200 per cent.[39] The rising price of oil as well as the massive transfer of income to oil-exporting countries should set the stage for any analysis of the Global Financial Crisis.

According to monthly data collected by the World Federation of Exchanges, the global capitalization of firms stood at a record high of US$63 trillion in October of 2007 when oil was at US$82 a barrel. From this summit of capitalization, world stock markets haemorrhaged US$39 trillion at the lowest point in February of 2009 when global stock market capitalization bottomed out at US$29 trillion and oil followed to US$41 a barrel in December of 2008.[40] In other words, in the span of 16 months (November 2007 to February 2009) investors from around the world slashed the value of companies worldwide by over half. What this suggests from the power theory of value perspective is that investors suffered a massive loss of confidence in the power of firms to shape and reshape the terrain of social reproduction to generate ever greater earnings – what Nitzan and Bichler have characterized as systemic fear (2010).[41]

Of course the conventional and broad interpretation of the global financial crisis is that it began with defaults on subprime mortgages held as sliced and diced securitized assets by investment banks and other financial institutions around the world. But if this were an entirely accurate portrait of the crisis, why was the crisis globally synchronized across all sectors of the global economy? Shouldn't have investors punished the banking and financial sector and those firms heavily reliant on borrowed bank money? In Table 2.1, and using data from the FT Global 500 – a list of the largest firms in the world by market capitalization – I use a sample of ten different sectors selected at random to demonstrate the ubiquity of the crisis in more detail than overall global market capitalization.

So the question here is why global investors came to believe that companies *across the world* and *across sectors* have less power to shape and reshape the social process to generate earnings than their previous estimations? My hypothesis, which can only be suggested at here, is that because cheap oil has been the basis of global accumulation, and consumption is so central to the global political economy, a drastic increase in the price of oil *combined with* fears over bank failure and future lending prospects affected the level of consumption as well as the types of commodities consumed (e.g. the shift to smaller cars and public transportation in the US, 'stay-cations' etc.) because firms and households had to pay considerably more for energy.[42] Figure 2.1 considers the relationship between global market capitalization and oil prices per barrel since 2000.

The story here is fairly straightforward: global capitalization experiences a drop from its 2000 high due largely to accounting scandals and wild speculation in internet stocks and technology. From 2002 we see global capitalization begin a relatively steep incline with oil prices rising as well. By the time oil reaches US$74 a barrel, global capitalization is at its height of US$62 trillion and thereafter begins its steep decline as the price for a barrel of oil continues to climb. The inverse relationship is rather clear as oil prices begin to collapse after capitalization, and therefore expectations about future profits start to be reassessed radically. As oil prices come down most clearly in 2009, global capitalization starts to improve. But once again, this can likely be attributed to oil prices

*Table 2.1* Market capitalization by sector 2007 and 2009, % change

| *Sector* | *Market value 2007 US$* | *Market value (2009) US$* | *% change (–)* |
|---|---|---|---|
| Pharmaceuticals & Biotech | 1.7 trillion | 1.2 trillion | −42% |
| Fixed Line Telecommunications | 1 trillion | 674 billion | −48% |
| General Industrials | 684 billion | 245 billion | −179% |
| Automobiles & Parts | 634 billion | 336 billion | −89% |
| Banks | 5 trillion | 2.4 trillion | −108% |
| Media | 589 billion | 236 billion | −150% |
| Food Producers | 389 billion | 269 billion | −44% |
| Oil and Gas Producers | 2.9 trillion | 2.3 trillion | −26% |
| Travel & Leisure | 263 billion | 118 billion | −122% |
| Leisure Goods | 227 billion | 106 billion | −114% |

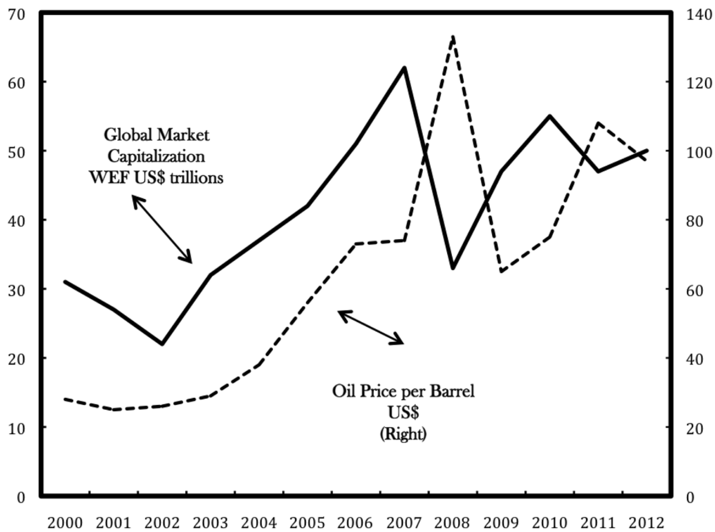


*Figure 2.1* World market capitalization vs oil price.

*Source*: Data on total yearly world market capitalization are taken from the World Federation of Exchanges. Data go back to 2000. The plot point for 2012 is taken at the mid-year point when information was available. Oil prices per barrel are snapshots of yearly oil prices taken in July and sourced from the World Bank. Numbers are rounded and express an average of the three main spot prices: Brent, WTI and DF.

coming down and the emergency stimulus packages introduced by governments. Undoubtedly, both factors restored some confidence in future profits. But as capitalization tried to climb to its earlier summit of US$62 trillion, oil prices once again skyrocketed above US$75 dollars a barrel and thereafter started another decline. Once again, the price of a barrel of oil started to drop. While a number of other explanations are entirely possible, the inverse relationship seems to be clear once oil prices head towards US$80 dollars a barrel. And from the viewpoint of energy fuelling the capitalist mode of power, the relationship should not be too surprising: higher energy costs dampen expectations about future growth and profitability and lower expectations typically mean a fall off in capitalization. Should we continue to experience high prices for the energy that largely fuels the mobility our petro-market civilization, we may hold to the hypothesis that capitalization will plummet as a result. Compounding this problem is capital's continued suppression of working-class wages, the redistribution of global income upwards (see Chapter 4), structural imbalances in global trade and finance and the global explosion in household debt in mortgages, bank loans of various kinds and revolving credit card debt (Montgomerie 2006; 2009).

To come full circle using the energy-capitalization-social reproduction nexus, let's consider global trade during the crisis. According to the World

Trade Organization (WTO), the drop in global trade during 2009 was the largest collapse on record. In terms of US dollars, global trade fell by –22.6 per cent while the volume of world trade dropped by –12.2 per cent. The WTO (2010: 20) argues that a consensus has emerged to explain this contraction: a sharp decline in global demand.

Considering the negative impact that high oil prices have on global stock market capitalization and world trade, we may get a sense of what will occur when oil prices start to escalate after the peak in global oil production. Given the evidence above, we may move beyond the conventional rhetoric that what we are experiencing is a global economic and financial crisis solely rooted in risky asset-backed securities. The current crisis is an emergent general crisis of social reproduction – one that threatens to intensify in the decades to come and usher in a second great transformation.

## Conclusion

In this chapter I have argued that Nitzan and Bichler's innovative and convincing theory of capital as a mode of power can be enriched and emboldened by further historical investigations into the emergence and universalization of capital as power. My contribution has been to highlight how the rise of capitalization and transformations in global social reproduction coincided with the mass exploitation of fossil fuels. Since non-renewable fossil fuels undergirded the transition to capital as a mode of power we can hypothesize that this mode of power, like the age of carbon energy, is exceptional and historically transitory. Borrowing Polanyi's language of a 'great transformation', I have argued that with the dawn of peak energy global society is unwillingly, but inevitably, embarking upon a second 'great transformation' – one that looks to be just as protracted, turbulent and socially dissociative as the transition to a civilizational order whose social reproduction was mediated by cheap energy, the creation of wage-labour and capitalist markets. How our post-carbon future emerges out of the womb of fossil fuel civilization cannot be predicted with any certainty. However, in considering the latest oil shock in relation to capitalization and trade as a proxy for global social reproduction, we may get a suggestive glimpse into the future of the global political economy in an age of increasing oil prices. With that said, it is still my view that there are many gaps in our knowledge when it comes to explaining the historical emergence and universalization of capital as power and the recent global financial crisis. Despite this recognition, much more attention should be given to the interplay between dominant/strategic power, social property relations, new forms of social reproduction and energy resources. I can only hope that in some small measure I have been able to open at least one window – a window into a world where energy, capitalization and social reproduction are key explanatory categories in understanding the capitalist mode of power. The rabbit hole goes much deeper into the realm of practical struggles for a decent life beyond capital as power and carbon energy.

## Notes

1 I would like to thank Jonathan Nitzan, Hanna Kivistö, Taavi Sundell and Silke Trommer for helpful suggestions. Errors are of course my own.

2 The importance of fossil fuels to capitalist modernity has been underscored by literature outside of political economy – which has been slow to include fossil fuels as central to its analysis or master narratives – for instance, of hegemonic transitions. However, while the environmental and ecological literature recognizes the importance of fossil fuels they have so far failed to make any links with capitalization or the power theory of value. For an overview of this literature, see Barca 2010.

3 For a broader discussion of social reproduction and in particular how feminists employ the term see Bakker and Gill 2003; Bakker 2007; Bakker and Silvey 2008; Steans and Tepe 2010.

4 Market capitalization is calculated by multiplying the value of one share in a publically listed firm at a particular time with the outstanding number of shares.

5 Their critiques of neoclassical and Marxist theory will not be retraced here. For the original treatment see Nitzan and Bichler 2009: 65–125.

6 This, of course, is not to suggest that markets or the exchange of goods and services both within and across political communities played no role in the ways in which society as a whole reproduced in early economies. But there is certainly a qualitative difference in the level, depth and spatial scope of exchange – not to mention its mechanisms – with the transition to capitalism and mass urbanization. I thank Silke Trommer for emphasizing this point to me.

7 John Vidal, 'UN Report: World's Biggest Cities Merging Into "Mega-Regions"', *Guardian*, March 23, 2010.

8 Research is particularly needed on how the historical specificity of diverse social formations and their social property relations may have contributed differentially to the capitalist mode of power on the one hand and how interconnections between different political communities contributed to social change (Shilliam 2004; Bhambra 2010: 128). What is also underplayed in their theory are the waves of global enclosure and dispossession that created a global wage-labouring class (Di Muzio 2007).

9 A similar point is made in Huber 2011: 37, although targeted more specifically at geopolitics from a Marxist understanding of capital. See also Huber 2008; Abramsky 2010; Keefer 2010 for insightful discussions connecting historical materialism with energy.

10 This figure was calculated by using the Bank of England's inflation calculator and then converted into US dollars by using the XE's currency converter on November 2, 2011. The inflation rate used was 4.6 per cent per year from 1910 to 2010. I use the short scale for orders of magnitude: 1 trillion = 1,000,000,000,000.

11 This figure is a snapshot. It was calculated by using data from the World Federation of Exchanges on total market capitalization – US$45 trillion as of September 2011 and adding it with the amount outstanding on the global bond market as recorded by TheCityUK – US$95 trillion. TheCityUK, *Bond Markets*, July 2011, http://www.thecityuk.com/assets/Uploads/BondMarkets2011.pdf (accessed August 11, 2011). *But note:* total outstanding capitalization is actually higher. If we consider the total global financial stock – equities, the bond market *and* the book value of loans held on the accounts of all financial institutions with outstanding securitized debt instruments – the figure is US$212 trillion at the end of 2010. See http://www.mckinsey.com/mgi/reports/freepass_pdfs/Mapping_global_capital_markets/Capital_markets_update_email.pdf (accessed October 10, 2011).

12 Note that this figure only captures the global bond and equities market and not all forms of capitalization such as bank capitalization of personal income (e.g. credit cards or home mortgages). See note 10.

13 These facts are taken from the *Economist*'s global debt clock, http://www.economist.com/content/global_debt_clock (accessed November 2, 2011).
14 TheCityUK, *Bond Markets*, July 2011, http://www.thecityuk.com/assets/Uploads/BondMarkets2011.pdf (accessed August 11, 2011). The calculation was arrived at by taking the $US95 trillion outstanding government corporate and financial bonds figure and subtracting the $40 trillion in global public debt.
15 World Federation of Exchanges, 'Market Highlights for First-half Year 2011', http://www.world-exchanges.org/files/file/stats%20and%20charts/1st%20half%20%202011%20WFE%20market%20highlights.pdf (accessed November 2, 2011).
16 The figure is from the Bank of International Settlements website: http://www.bis.org/cbanks.htm (accessed November 2, 2011).
17 What this means is that the actual level of equity market capitalization is larger given that only 52 regulated exchanges belong to the World Federation of Exchanges. However, since these exchanges are likely small (for example in Ghana where total market capitalization of the GSE is about US$12 billion) accounting for them, while worthwhile, will not amplify the snapshot figure of US$45 trillion by much. A list of exchanges can be found here: http://www.tdd.lt/slnews/Stock_Exchanges/Stock.Exchanges.htm (accessed November 2, 2011).
18 http://www.crmz.com/Directory/ (accessed August 12, 2011).
19 Wrigley writes: 'All economies which developed in the wake of the Neolithic food revolution may be termed organic' (2010: 9). See also Sieferle 2010.
20 http://www.eia.gov/countries/country-data.cfm?fips=UK#tpe (accessed November 2, 2011).
21 The first major commitment to oil was perhaps made by Churchill who decided that the Royal Navy's fleet would be converted from coal to oil. This commitment was made in the full knowledge that Britain itself did not (at least at the time) have sufficient oil deposits to supply the navy (for a discussion see Yergin 1991: 137–40).
22 The LSE was officially institutionalized and regulated by 1801.
23 http://www.londonstockexchange.com/statistics/historic/stats-summary-pre-2005/historic.htm (accessed November 2, 2011).
24 Equity market value as of September 2011, see: http://www.londonstockexchange.com/statistics/companies-and-issuers/companies-and-issuers.htm (accessed November 2, 2011).
25 Since Nitzan and Bichler (2009) argue that capital is capitalized power or capacity, what I mean here by forms of power are the multiple ways in which different publically listed firms shape and reshape the landscape of social reproduction.
26 One could quite reasonably make a historical study of the British Empire as the 'Empire of Capitalization'.
27 In a personal communication with Silke Trommer, she has proposed a new research question: how many current firms would be able to continue to produce goods and services under conditions of autarky? To my mind, this is a question worth serious study.
28 Data are from http://www.tradingeconomics.com/united-kingdom/exports and http://www.tradingeconomics.com/united-kingdom/import (accessed November 2, 2011).
29 http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/u/11-720-uk-trade-performance.pdf
30 http://www.tradingeconomics.com/united-kingdom/import (accessed November 3, 2011).
31 http://www.iea.org/textbase/nppdf/free/2010/key_stats_2010.pdf Mtoe converted into gigajoules p. 28 (accessed November 3, 2011). My calculation.
32 Historical statistics up to 2000 are taken from Smil (2010) noted above. TPES for 2008 is taken from http://www.iea.org/textbase/nppdf/free/2010/key_stats_2010.pdf p.6 (accessed November 3, 2011). The conversion of Mtoe to exajoules is my own calculation.

33 http://www.wto.org/english/res_e/statis_e/miwi_e/miwi_e.htm (accessed November 2, 2011).

34 http://www.wto.org/english/news_e/pres11_e/pr628_e.htm (accessed November 2, 2011). The WTO notes that 'World merchandise exports were up 22%, rising from $12.5 trillion to $15.2 trillion in a single year, while world exports of commercial services rose 8%, from $3.4 trillion to $3.7 trillion'.

35 http://www.migrationinformation.org/datahub/remittances.cfm (accessed November 2, 2011). The World Bank estimates that US$440 billion was remitted in 2010 alone.

36 Indeed, the price for an ounce of gold has skyrocketed from just under US$500 in 1982 to US$1,691 at the time of this writing. See http://goldprice.org/ (accessed November 22, 2011).

37 The literature on this question is increasingly vast and I admit that the discussion below is a touch idiosyncratic given that it is not, and cannot be here, a full literature review.

38 Oil prices are averages from three spot markets: Brent, WTI and Dubai Fateh. http://www.indexmundi.com/commodities/?commodity=crude-oil&months=120 (accessed November 10, 2011).

39 The increase in the cost of oil is shaped by many factors – corporate sabotage, war, investors' expectations, natural disasters, the level of demand, the type of crude and its extraction costs, etc. My point here is not to say that the *historical* price has been determined by the *natural* lack of supply or the peaking of global oil production but to use the increasing price as an indicator of what will happen during the decline of global oil production since it will be felt immediately by rising prices. Thus, the current – and seemingly sustained – oil price shock can be taken as a dress rehearsal for the opening night of the final show – a dance between power, price, supply, demand and historical struggle.

40 Expressed as a rate of change, global capitalization fell by -54 per cent.

41 At the time of this writing, investors are also anxiously watching the sovereign debt crisis in the United States and Europe, leaving investors to wonder whether US treasuries can still be considered the 'risk free' benchmark used to calculate present value.For an enlightening discussion see Gillian Tett (2011) 'Get Used to World Without "Risk Free" Rate', *Financial Times*, September 11.

42 Consumption as a percentage of the world's GDP is estimated to be 60 per cent. http://www.mckinsey.com/mgi/mginews/unleashing_chinese_consumer.asp (accessed November 20, 2011).

# Part II

# The provocation of a new theory

# 3 The power of investment banks

## Surplus absorption or differential capitalization?

*Sandy Brian Hager*

The disappearance of independent investment banks from the American corporate landscape stands as one of the most remarkable developments of the current global financial crisis.[1] Over the course of a few months in 2008, the 'big five' investment banks, some of them more than a century old, were brought to their knees by the collapse of the subprime mortgage market. Bear Stearns and Merrill Lynch were swallowed up by commercial banks in government-orchestrated takeovers. Lehman Brothers was allowed to perish, while the two survivors Goldman Sachs and Morgan Stanley were forced to convert themselves into bank holding companies in order to secure emergency funding from the Federal Reserve that would save them from the fate of their counterparts.

What makes this collapse all the more remarkable is that it came on the heels of what has been widely recognized as a dramatic rise in investment bank power since the early 1980s. In the words of one former investment banker, the three decades preceding the current crisis marked a 'Golden Age of Investment Banking' (Augar 2006). The origins of this golden age can be traced to the mid-1980s when investment banks became heavily involved in the junk bond and leveraged buyout (LBO) waves; a role that was immortalized in popular fiction. Michael Lewis' (1986: 32) *Liar's Poker* describes investment bankers of this era as a 'master race of deal makers', while Tom Wolfe's (1987) *Bonfire of the Vanities* extended this prowess to the cosmos, referring to them as 'masters of the universe'. In the 1990s and early 2000s, investment banks gained further notoriety with accusations that they fuelled the dot-com boom by recommending the shares in technology companies whose initial public offerings (IPOs) they underwrote (Augar 2006; Knee 2007; Prins 2004). This infamous role in fuelling market mania was recently taken to new heights with the big five investment banks taking a leading role in packaging and trading subprime mortgages. The collapse of the subprime market not only revealed the fragility of investment bank power, but it also highlighted just how central the big five had become to global finance. According to *Financial Times* columnist Gideon Rachman (2011), the day of Lehman's collapse, September 15th 2008, may prove to be of more significance to the global political economy than the events of September 11th 2001.

The recent oscillations in investment bank power have received a great deal of attention from pundits. And this attentiveness has been fuelled further by what appears to be a rapid resurgence in the power of surviving investment banks since their conversion to bank holding companies in 2008. Goldman Sachs has become the symbol of corporate power and greed. And the now famous description of Goldman as a 'giant vampire squid wrapped around the face of humanity' by journalist Matt Taibbi (2009: 52) is symptomatic of popular sentiments towards an investment bank that has, among other things, accepted government bailout money and then announced record-breaking profits and lavish bonuses. But for all the attention that investment bank power has received over the past three decades, there is something that is glaringly absent from existing accounts: the political economy of capital accumulation. Few would deny that power in capitalist societies is somehow linked to the process of accumulation, but in the case of investment banks little effort has been made to explain and empirically explore these linkages.

Thus my purpose in this chapter will be to develop my own theoretical-empirical account of investment bank power over the past three decades; one that is anchored within the political economy of accumulation. The arguments made here are developed out of a critical engagement with one of the few approaches that have tried to systematically theorize and empirically map the linkages between the accumulation of capital and the power of investment banks and other financial intermediaries: the monopoly capital school of Marxism.

I argue that the monopoly capital framework faces severe shortcomings in explaining the power of investment banks and that these problems can be traced back to the school's theory of capital. Specifically, the theory of monopoly capital relies on a bifurcated view of accumulation, one that separates capital into 'real' and 'financial' spheres. The interaction between these spheres is supposed to explain the power of investment banks and other financial intermediaries. But as will be discussed in detail below, this bifurcated view is logically circular and empirically inoperable. And because of this, the monopoly capital approach is unable to explain or measure the oscillations in investment bank power over time.

Building on the work of Nitzan and Bichler (2009), my alternative capital as power approach takes its point of departure in explicitly rejecting the real/nominal duality underlying monopoly capital's theory of accumulation. Instead, following Nitzan and Bichler, I argue that the central logic governing accumulation is capitalization: the discounting of risk-adjusted future earnings into present value. As a symbolic quantification of capitalist power to restructure society, capitalization provides an alternative starting point for investigating investment bank power. I suggest that linking the quantitative architecture of capitalization to the qualitative manifestations of power provides a more compelling account of the changing power of investment banks since the 1980s.

Through extensive qualitative-quantitative analysis, my account reinforces the notion that there has been a rapid rise in the power of large investment banks from the early 1980s up until the current financial crisis. This power is wielded in almost every facet of financial market activity and therefore extends far beyond traditional investment bank power in underwriting and mergers advisory. But this diversification of power, I suggest, does not render the distinctions between investment banks and other financial services conglomerates meaningless, as the monopoly capital and other capital 'fractions' approaches would suggest. The trend towards conglomeration is undoubtedly significant. And now with the disappearance of independent investment banks in the wake of the current crisis, the distinctions between finance, insurance and real estate (FIRE) firms may have been irreversibly erased. But I argue that the rapid rise of investment bank power over the past three decades, as well as its apparent decline with the crisis, cannot be adequately explained if investment banks are lumped together with the FIRE sector as a whole. Though functional boundaries between firms may have faded, the course of investment bank power over the past three decades has been bound up with the unique ways in which they have maneuvered within US financial regulation.

This alternative theory of accumulation also leads to a rather different assessment of the role of neoliberal ideology within contemporary capitalism. For the monopoly capital school, neoliberalism is said to serve the interests of 'financial capital'. Yet my empirical study suggests that this assertion is far too general (see also Kotz 2010: 6). Even if financial capital is narrowly equated with so-called financial intermediaries, the claim that neoliberalism has served their collective interests glosses over the ways in which neoliberal policies and regulations have at certain points served to enhance the competitive struggles within the FIRE sector.

The rest of the chapter is organized into two halves. The first half offers a detailed overview and critique of the monopoly capital school's analysis of investment bank power and the underlying theory of capital that informs it. An effort is then made in the first half to outline an alternative approach based on Nitzan and Bichler's notion of capital *as* power. The second half of the chapter goes on to offer an empirical analysis of investment bank power since the 1980s, with particular emphasis on the linkages between investment bank power and the rise of neoliberal regulation.

## Monopoly capital and investment bank power

The literature tracking the rise, decline and resurgence of investment banks over the past three decades offers many illuminating insights into the nature of their power. But as was mentioned in the introduction, one would be hard pressed to find within these studies any mention of accumulation, the central power process in capitalist societies.[2] One of the important exceptions in this regard is the work of the monopoly capital (hereafter MC) school, which has made concerted efforts to theorize and empirically map the changing relationship between finance and accumulation. In this section I will outline the MC school analysis of investment bank power, before moving to critically examine the underlying assumptions that inform these analyses in the next section.

The MC theorists have been attentive to the role of investment banks and other financial intermediaries in capitalist development since the school's formation in the mid-twentieth century. Already in 1941, Paul Sweezy (1910–2004), a founding member of the school, published an article on the power of US investment banks in light of the 1929 stock market crash and ensuing depression. His assessment of their relative position and future prospects within the corporate hierarchy was bleak. Although the major investment banks had survived the turbulent 1930s, Sweezy argued that they failed to reassert the dominance they secured during the initial transition from competitive to monopoly capitalism around the turn of the twentieth century (see Veblen 2004). Firms that once embraced the guidance of investment bankers had matured into giants capable of expanding their operations through internal financing. As a result, most of the securities market activity that took place involved routine refunding operations that required little investment bank expertise, while those few securities that were newly issued were privately placed with increasingly powerful institutional investors.

Taken together, Sweezy suggested that these changes signified a 'simple atrophy of functions' (1941: 66); for investment banks, whose remaining business was 'being carried on to an increasing extent by new methods and by new agencies better suited to the task' (1942: 265−9). Investment banks played a crucial role in the consolidation of monopoly capitalism. Yet once this process was completed, Sweezy argued that they ceased to 'play a *special* role in the economic life of the country' (1941: 67−8; emphasis in original). The state and family-controlled industrial groups would likely fill the power vacuum left in the wake of investment bank decline.

Forty years later, Sweezy followed up the themes of this original article by reassessing the power of investment banks during the heyday of monopoly capitalism: the postwar 'Golden Age'. Investment banking had proven to be highly profitable in this period, but the community of large investment banks, Sweezy claimed, had still not 'regained any of its old aura as the aristocracy of the business world' (1981: 249). Competition for underwriting and merger services had become increasingly fierce. And the diffusion of power created by competition was further aided by the growing tendency towards conglomeration. Much like corporate legal or auditing services, Sweezy suggested that investment banks played an essential role in the 'smooth functioning of the corporate system' (1981: 250). But this did not provide them with a position of power relative to their corporate clients; nor did it stem their relative long-term decline within the financial sector. In short, Sweezy reaffirmed his earlier claim that investment bank power was a transitory phenomenon strictly confined to an earlier phase of capitalist development. And upon reaching this unambiguous conclusion, Sweezy never again revisited the issue of investment bank power and its implications for US capitalism.

What is most noteworthy about this final assessment is that it came on the cusp of what Sweezy and other members of the MC school would later identify as a new phase of capitalist development in the US. This phase, which emerged in the early 1980s and which now appears to be drawing to a close with the global financial crisis, has recently been referred to as 'the age of monopoly-finance capital' (Foster 2010a). According to MC theorists, the main feature of the monopoly-finance phase is the 'financialization' of capital accumulation: a process that involves the stagnation of investment in the 'real' productive economy and the explosion of 'fictitious' claims to wealth. And while Keynesianism was the 'ideological counterpart' of monopoly capitalism, neoliberalism, with its free market mantra of 'sound money', liberalization and deregulation, has emerged as 'the economic policy most conducive to today's monopoly-finance capital' (Foster and McChesney 2010: 52).

The MC school argues that this shift to financialization and neoliberalism has led to the resurgence of 'financial capital'.[3] Large FIRE sector corporations come to wield more and more power at the expense of the industrial giants that dominated the postwar period (Sweezy 1994; Foster and Holleman 2010). This argument seems to conflict with Sweezy's earlier claims about investment bank decline. Investment banks are, after all, a part of FIRE, so doesn't the apparent resurgence of that sector suggest that investment bank power is not in fact a 'transitory' phenomenon confined to an earlier phase of capitalism, but a very real part of the contemporary period? Sweezy provides us with little insight into this question because, as was noted above, the issue of investment bank power was completely neglected in his work after 1981. Unfortunately, the works of other monopoly capital theorists are also of little help. The few brief references that are made to the power of investment banks merely reassert Sweezy's original arguments (Foster and Magdoff 2009: 149).

How do we explain this indifference, especially given the MC school's recent emphasis on financial power? The answer may lie in the enduring influence of Sweezy's conclusions. With this justifiably influential figure reaching such unambiguous conclusions about the transitory nature of investment bank power, it is little wonder that others working within the MC school tradition since then have never seriously re-examined the issue. Another reason may have to do with the growing trend towards conglomeration, which Sweezy (1981) not only regarded as a further sign of investment bank decline, but which he also saw as eliminating any meaningful distinctions between financial firms. If investment banks are indeed indistinguishable from other financial services conglomerates then there is little need to re-examine the power of investment banks as a separate category of firms.

This MC school account raises important questions I will explore in more detail below: is investment bank power really transitory (i.e. confined to an earlier phase of capitalist development)? And is the power of investment banks now indistinguishable from other financial conglomerates? The MC school analysis of investment bank power outlined above did not arise from a theoretical vacuum. Thus in order to address these questions, we first need to scrutinize and explore whether the general theoretical assumptions of the MC school can explain the role of financial intermediaries in the first place.

## Finance: surplus absorption?

The MC school's explanation for the power of financial intermediaries is anchored within a theory of capital. Most of the time, this theory is not explicit in Sweezy's writings on investment banks. But other writings by Sweezy and the MC school focus directly on the general role of financial intermediaries within the process of capital accumulation, making it possible to re-trace how this theory informs Sweezy's specific arguments regarding investment banks.

Before the rise of giant corporations in the early twentieth century, Sweezy argued that Marx's competitive laws of motion, including the tendency for the profit rate to fall, governed accumulation in the US (Baran and Sweezy 1966: 72). It was in the nineteenth century within an environment of fierce competition that the investment banker, enriched from financing the US Civil War and the construction of the railroads, began to exert incredible influence over the nascent US industrial apparatus. Desperate to stem the tide of excess output, deflation and falling profits, the industrial firms of this period welcomed the oversight that investment banks, led by J.P. Morgan, provided by sitting on corporate advisory boards, facilitating the combination of firms into holding companies, and underwriting new securities.

In orchestrating the combination of small firms into a tightly knit network of colluding giants, the investment banks helped to restore these sectors to profitability. But Sweezy argued that in doing so the investment banks also planted the seeds for their own demise. As mentioned above, the once-feeble industrial corporations had become powerful by the early twentieth century, capable of self-financing their operations. Growing profits meant that the industrial corporations were gradually able to shed their reliance on investment banks.

According to Sweezy, these developments had deeper implications for the US because they annulled the competitive tendencies that Marx predicted would bring about a collapse of the capitalist system. While the competitive phase was dominated by the tendency of the profit rate to fall, the monopoly phase was governed by a new tendency for the surplus to rise. Within this phase, the large industrial corporation usurped the investment banker's position as the most powerful figure in the US. The basic dilemma of the tendency of the surplus to rise is that collusive, 'price-making' industrial corporations no longer face a problem of falling profits, but instead a shortage of profitable, productive outlets for their surplus.[4] In order to counteract the tendency towards stagnation that this causes, capitalists come to rely on wasteful expenditures to absorb the economic surplus. The sales effort, government (especially military) spending and the 'financial superstructure' are all singled out as primary 'outlets' for surplus absorption.

The growth of the 'financial superstructure' can be seen with the explosion of private and public debt, consumer finance, financial instruments, and the ballooning of the financial sector that intermediates the proliferating relations of credit and debt. As such, 'finance' still plays a role within advanced monopoly capitalist societies. But under monopoly capitalism, financial power becomes a dependent force since, as an outlet for surplus, the precise oscillations of the financial superstructure ultimately depend on, and can only be explained with reference to, the underlying oscillations in the industrial 'base'.

In MC's analysis of the postwar Golden Age, finance took a back seat to military spending and advertising as the predominant wasteful outlets for excess surplus. But from the 1980s the MC school turned its attention to the re-emergence of finance as the 'largest countervailing force' to stagnation (Foster and Magdoff 2009). And since the early 1980s, MC has argued that stagnation, coupled with financial explosion, has caused the financial superstructure to de-couple significantly from the underlying 'real' economic base. As a consequence, financial intermediaries have moved beyond their supporting role as 'facilitator[s] of the production and distribution of goods and services' (Magdoff and Sweezy 1987: 20), to become the primary drivers of accumulation.

The MC school offers plenty of data to demonstrate the connection between industrial stagnation and financial explosion over the past three decades. But it is unclear to what extent this data actually supports MC's theoretical claims. One of the less serious problems has to do with diversification, which according to Magdoff and Sweezy, made it impossible '… to define or delineate the financial sector with any accuracy'. Since corporations classified as 'industrial' and 'financial' are both increasingly engaged in intermediation, it becomes difficult to separate their financial and industrial activities, and impossible to pin down the financial and industrial components of profitability (1987: 97).[5]

This ambiguity has its origins in a more pressing problem: MC's bifurcation of capital into 'real' and 'financial' spheres. This duality can be tied back to Marx's labour theory of value (LTV), which is supposed to explain the interactions between the two spheres. For Marx, the 'real' sphere of industrial capital is denominated in the universal unit of 'abstract labour' and the 'fictitious' sphere of money capital in prices. Because the LTV assumes that productive labour expended within the 'real' sphere is the source of surplus value, what happens within this sphere is meant to explain the epiphenomenal world of prices.

But there is one crucial difference between Marx and the monopoly capital school: the latter completely abandoned the LTV as a guide to quantitative empirical research (Sweezy 1942). Given that no one has been able to identify or measure abstract labour, it could be argued that the MC school, which has been careful not only to theorize but also empirically explore accumulation, made this move out of necessity. But the abandonment of the LTV came at a hefty price. Recall that in the MC framework, what happens in the 'financial' sphere ultimately hinges on what happens in the 'real' economy. But without a 'real' unit of its own to replace abstract labour, all of MC's empirical measures rely on national accounting data denominated in 'fictitious' prices. To make matters worse, 'real' measurements created by statisticians involve a series of circular assumptions about equilibrium and utility, liberal concepts that are antithetical to Marxism (Nitzan and Bichler 2009). Magdoff and Sweezy (1987: 94) recognized the impossibility of separating the 'real' from the nominal, but never considered the logical circularity of relying on nominal data to explain so-called 'real' phenomena.

Yet even if we take a pragmatic approach and assume that price measurements offer a meaningful proxy for 'real' capital, the explanation still runs into trouble. According to the theory, although the financial superstructure can de-couple from its 'real' base 'to a considerable degree' this cannot happen indefinitely (Foster and Magdoff 2009: 72−82). And so the argument follows that periods of speculative excesses eventually unravel, and 'fictitious' capital comes crashing back to 'real' capital. But in order to know whether this actually is the case, we need to measure real and fictitious capital to determine if: 1) there was a coupling between them at some point; 2) periods of decoupling are eventually followed by re-coupling through financial crisis. To address these issues we first need reasonable and comparable proxies for 'real' and 'fictitious' capital. The MC has offered plenty of data on stagnation and financialization, but they have thus far neglected to bring measures for these types of capital together in order to analyze their long-term historical relationship.

By MC's own definitions, 'real' capital is represented by 'the stock of plant, equipment and goods generated in production', while 'fictitious' capital is represented by 'the structure of financial claims produced by the paper titles to this real capital' (Foster 2010b: 6). Employing these definitions, we would have to compare some measure of the capital stock alongside the market value of debt and equity that has capitalized this 'real' wealth. In research that explores the thesis of a 'mismatch' between 'real' and 'fictitious' capital, Nitzan and Bichler (2009) provide such measures. Figure 3.1 reproduces and updates their data, which analyzes the relationship between the rate of change in the current cost of corporate fixed assets ('real' capital) and rate of change in the market value of corporate equities and bonds ('fictitious' capital).

According to the MC approach, in 'normal' times (i.e. prior to the 1980s), 'fictitious' capital is coupled with 'real' capital. Finance may become de-coupled from its real base for a while (i.e. from the 1980s), but this deviation from the rule is short lived and eventually, through the onset of crisis, 'fictitious' capital must come crashing down to its underlying base in the real economy.

The contemporary situation does not given any definitive evidence to support this account: from the early 1980s to around 2001 'fictitious' capital accelerates while 'real' capital declines then stagnates. Since 2001 a series of crises have seen 'fictitious' capital come crashing down, while 'real' capital, as the theory would expect, continued to move sideways up until the current crisis. But from 2008 to 2010 we actually see the opposite of what the theory predicts: a decline in 'real' capital has been met with an increase in 'fictitious' capital.

Current short-term patterns aside, how do we know that the situation since the 1980s has been, as the MC school suggests, a deviation from normality? And since it is too early to draw definitive conclusions about the current crisis, how do we know that past periods of financial deceleration actually resulted in a re-coupling of 'fictitious' and 'real' capital? To address these questions, we have to go back further. It is within the broader historical picture that the MC explanation starts to break down. Notice that the alleged coupling of finance with the 'real' before the 1980s never actually happened: finance has never been coupled

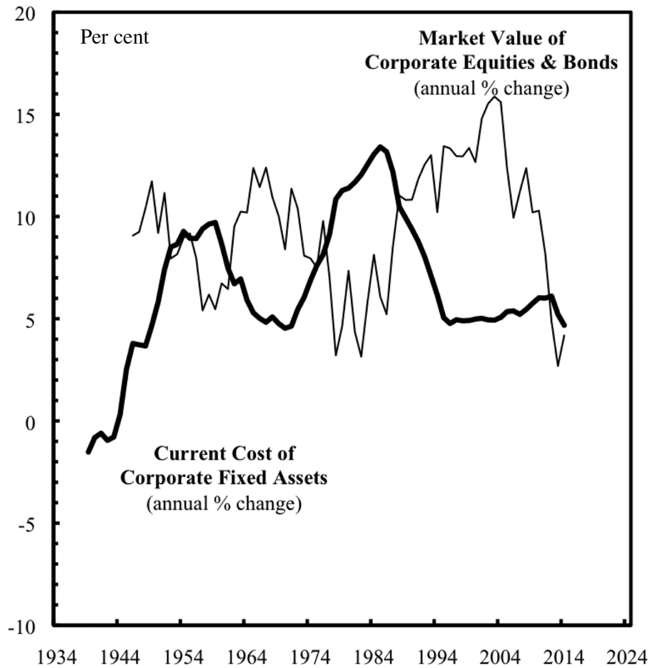


*Figure 3.1* ‘Real base’ and ‘financial superstructure’?

*Note*: Series smoothed as ten-year moving averages. The market value of corporate equities and bonds is net of foreign holdings by US residents.

*Source*: Nitzan and Bichler (2009); Global Insight (series codes: FAPNREZ for current cost of corporate fixed assets; FL893064105 for market value of corporate equities; FL263164003 for market value of foreign equities held by US residents; FL893163005 for market value of corporate and foreign bonds; FL263163003 for market value of foreign bonds held by US residents).

with ‘real’ capital. And so what is explained as a ‘deviation’ from the norm since the 1980s is in fact the theoretical rule. Since the two are never coupled in the first place, there is no sense in talking about a period of de-coupling since the 1980s. Furthermore, this inverse relation between the two means that periods of financial decline have not resulted in its re-convergence with ‘real’ capital, but in upswings in ‘real’ accumulation!

The complications created by diversification, the logical circularity of using prices to measure ‘real’ phenomena, and above all, the absence of a meaningful relationship between proxy measurements for ‘fictitious’ and ‘real’ capital should be enough to raise serious doubts about monopoly capital’s bifurcated theory of accumulation. Without a meaningful way of distinguishing between the ‘real’ and financial spheres, MC’s explanation of the precise movements of finance and the historical changes in the power of financial intermediaries breaks down. Sweezy's research provides useful insights into the changing role and power of investment banks from the turn of the twentieth century through the postwar period. But these insights are inevitably limited by the theoretical assumptions that underpin his account. Though the MC school draws linkages between power and capital accumulation, their explanation of these linkages lacks theoretical coherence and empirical grounding. Consequently, it is not sufficient to uncritically adopt the tools of MC in order to update Sweezy's analysis of investment banks. Instead we need to first re-think the linkage between power and accumulation.

## Capital as power

In this section, I outline some features of a capital *as* power (CasP) alternative. Like the MC school, CasP explicitly rejects the quantitative dimensions of Marx's LTV, precisely because of the logical and empirical impossibility of the theory's underlying unit of abstract labour. But it goes further in also abandoning the circular assumption that the quantities of price are somehow representative of un-measurable 'real' quanta that are supposed to explain them. The problem with the real/nominal duality is that it assumes an impossible *dual quantity* relationship between values and prices.

Instead CasP argues that there is only one universal quantitative reality for capitalists, and that is the market value of their assets.[6] As a system of commodification based on private ownership, capitalism is particularly amenable to numerical ordering: anything that can be privately owned can be priced, and that is why the history of capitalism has witnessed an exponential expansion of the price system.

While prices are the fundamental unit of the capitalist order, the central logic governing this order is capitalization: the discounting of risk-adjusted future earnings into present value. Of course earnings have a lot to do with production. But they extend far beyond the factory floor; anything that is expected to impact the course of future earnings can be capitalized. Since the fundamental unit and pattern of the capitalist order are financial, capital accumulation itself is to be understood with reference to a single rather than a dual entity. As Nitzan and Bichler point out: 'capital is finance and only finance' (2009: 262).

But why capital *as* power? The answer can be traced back to the institution of private property. As was mentioned above, anything that can be privately owned can be priced, and the price of that asset is determined by discounting its risk-adjusted expected future earnings. To understand the nature of private ownership, Nitzan and Bichler (2009: 228) argue, we need to look no further than the root of the word private, whose etymology can be traced back to the Latin 'privatus', meaning 'restricted'. It follows that since private ownership is organized around the principle of *exclusion*, the ability to exclude others from using that property is itself a matter of organized power. Since accumulation is impossible without this institutionalized exclusion, power needs to be integrated into our definition of capital from the very start.

Though capitalization is usually treated as a benign technical exercise in mainstream theories of finance, it is recast within the CasP approach as a symbolic quantification of capitalist power to restructure and reshape society. For the MC school the logic of accumulation is bound to mechanistic laws that are external to society. The locus of power in monopoly capitalist society is associated with giant corporations, but the power of these corporations is still bound by a law, the tendency of the surplus to rise, that they did not create. The power of giant financial intermediaries such as investment banks is bound to this mechanistic law as absorber of the surplus.[7] The logic of capitalization, on the other hand, is not external to society but actively created and reproduced from above by the ruling class. Whether owning claims on the earnings of governments, consumers, industrial or financial corporations, capitalists always seek to accumulate by having the capitalized value of their assets grow over time. This dynamic process of accumulation, through means of organized exclusion, constantly recreates and restructures the social order.[8]

Crucially, the process of accumulation is inherently relative: capitalists seek to increase the value of their assets relative to some average benchmark. As capitalists boost their capitalization relative to other capitalists, they accumulate *differentially*, and as a result, augment their power. The universalizing struggle to achieve differential accumulation (see glossary) provides the point of departure for CasP. Though this process is mapped quantitatively, its effects are always manifested qualitatively. Thus in place of Marx's *quantitative* (labour) theory of value, CasP offers a *qualitative* (power) theory of value that analytically links together the quantitative architecture of capitalization with an account of the broader societal manifestations of power. The link is always speculative. But its advantage is that, unlike Marx's LTV, it provides both a theoretical *and* empirical explanation of contemporary capitalist power.

## Investment banks: differential accumulation

With these theoretical remarks in place, we can now return to the earlier question of whether or not investment bank power is, as Sweezy suggests, a transitory phenomenon confined to an earlier stage of capitalist development. How would an alternative capital as power approach explain and measure investment bank power over the past three decades? Would it confirm or contradict this transitory power thesis?

Figure 3.2 provides the starting point for this alternative investigation by plotting the capitalization and profits of the top five US investment banks from the early 1970s until the collapse of the 'big five' in 2008. The measures are calculated differentially, relative to a proxy for what Nitzan and Bichler refer to as 'dominant capital': the top 100 US corporations (ranked by market capitalization).[9]

Both series indicate rapid growth in favour of the large investment banks.[10] In 1973, the relative capitalization and net profit of a large investment bank were a paltry 0.08 and 0.1 times the dominant capital average. In 1981 when Sweezy was sounding the final death knell of investment banks, they were still insignificant.

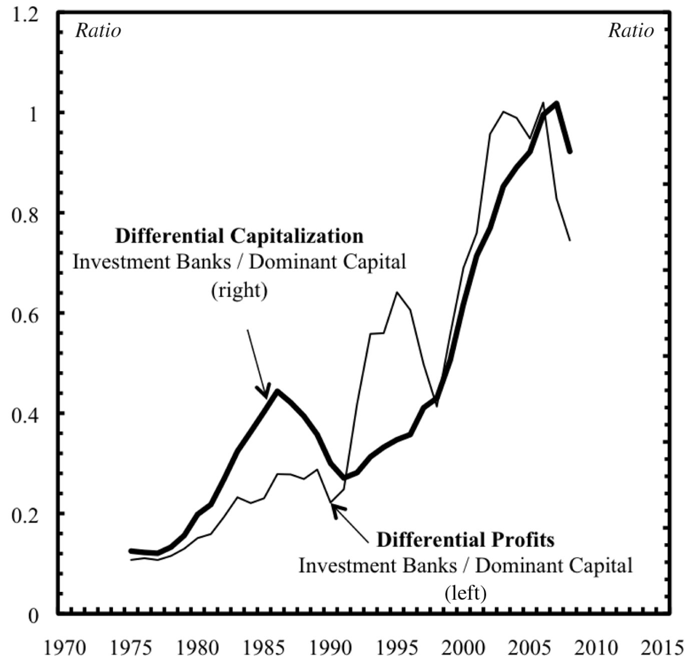


*Figure 3.2* Investment bank differential accumulation.

*Note*: Series smoothed as five-year moving averages.

*Source*: Compustat through WRDS (series code: CSHO for common shares outstanding; NI for net income; PRCC_F for price close – fiscal).

But since then, both measures have increased rapidly and steadily, so that by 2006, the differential net profit of the top five was slightly *larger* than the dominant capital average. From this high point in 2006, we see the impact of the crisis on the differential profits of the investment bank, which fell back down 0.8 times the average in 2008.

The differential capitalization (see glossary) of the large investment banks mirrors the pattern of differential profits, but its overall magnitude is lower. This suggests that, due to the perceived differential riskiness of investment bank earnings, investors have been reluctant to translate the increases in profits into equal increases in capitalization. But still, at 59 per cent of the dominant capital average in 2007, and even taking into account the crisis-era decline to 54 per cent in 2008, the differential capitalization of the large investment banks has seen a marked upsurge over the past three to four decades.

As a first step, the data in Figure 3.2 bring into serious doubt Sweezy's 'transitory power' thesis. Investment bank power appears instead to be a rapidly growing feature of contemporary capitalism. From their subordinate position in the 1970s and early 1980s, the large investment banks have achieved rapid differential accumulation, the levels of which are now comparable with the uppermost echelon of dominant capital.

The task that remains is to offer some explanation for this remarkable transformation. We can start by exploring how the power of contemporary investment banks differs from their predecessors. At the turn of the twentieth century, investment banks wielded their power over corporations who sought financing in securities markets. In this 'traditional' role as agents, the earnings of investment banks are dependent on the fees and commissions they charge for bringing together the two sides of securities market transactions. If we look at the pricing power over these activities, there is evidence to suggest that investment banks no longer dominate them. For example, average brokerage commissions on the New York Stock Exchange have fallen 60–80 per cent since fixed commissions were abandoned in 1975 (Hoover 2005). During the heyday of investment banking in the early 1900s, common stock underwriting spreads were as high as 20–25 per cent, and for bonds ranged from 5–10 per cent (Calomiris 2000: 280).[11] The spreads on underwritten common stock declined around 11 per cent for the years 1945–1949, and 7.5 per cent in 1963 (Mendelsohn 1967: 408–9). Recent data published in Morrison and Wilhelm Jr. (2007: 25) show that in 2000 bond underwriting spreads fell to 0.5 per cent. Data from Thomson SDC indicate average common equity spreads in the US of just 4.5 per cent in 2008.

The decline in pricing power has gone hand in hand with the movement of foreign banks and domestic commercial banks onto investment banks' traditional territory. In 1990 all of the top ten underwriters of common stock in the US were stand alone investment banks, and by 2003 this was reduced to five (Merrill Lynch, Goldman Sachs, Morgan Stanley, CS First Boston and A.G. Edwards), as three US commercial banks and two foreign banks entered the league table rankings (Morrison and Wilhelm Jr. 2007: 17).

In response to the decline in their traditional power, large investment banks have moved far beyond their role as securities market agents, to become significant principal actors, lending and committing their own capital in transactions. The extent of this shift away from this traditional agent role is shown in Table 3.1.

*Table 3.1* Large investment bank revenues (% of total revenues)

| *Period* | *Commissions and Fees* | *Investment Banking Income* | *Interest and Related Income* | *Principal Transactions* |
|---|---|---|---|---|
| 1982–1986 | 17.7 | 13.2 | 46.8 | 13.6 |
| 1993–1997 | 13.8 | 9.7 | 50.5 | 16 |
| 2004–2008 | 6.4 | 8.8 | 59.7 | 16.3 |

*Note*: The cut-off point for large investment banks in Table 3.1 is determined by annual revenues. From 1982 to 1990 the cut-off point is revenues of $1 billion or higher. From 1990 to 1999 it is $1.5 billion or higher. For 2000 to 2008 it is $3 billion or higher.

*Source*: Compustat though WRDS (series codes: CFBD for commissions and fees; IBKI for investment banking income; IDIT for interest and related income; PTRAN for principal transactions; REVT for total revenue).

Large investment banks' investment banking and commissions business has been halved from 1982–1986 to 2004–2008, while their income from interest and principal transactions (from their own inventory of securities) has jumped from 60 to 76 per cent over the same period. These trading operations now take place on a global scale, and include everything from asset-backed securities, currencies and derivatives to commodities, insurance and real estate (*Economist* 2007).

In the past, investment banks relied primarily on the obedience of corporations to seek out their services, which allowed them to exact a substantial mark-up for these services. Yet the long-term reduction in spreads and fees for investment banking services indicates that this pricing power has declined significantly, while the decreased reliance of investment bank revenues on traditional investment banking suggests that their power is now wielded in other areas. Investment bank power has become diversified into many other facets of global securities markets. And the growing complexity of these markets means growing complexity for investment bank power relations.

Consider, for example, the investment banks' recent role in global commodities markets. Since the early 1990s, Goldman Sachs in particular has been buying heavily into 'long' positions in commodities futures, leading some to suggest that it played a key role in orchestrating the dramatic spikes in oil and wheat prices in 2008 (Taibbi 2009; Kaufman 2010). Regardless of whether Goldman Sachs single-handedly orchestrated these price spikes or not, it is clear that their power now extends far beyond corporate finance into areas that impact the very survival of humanity: food and energy.

It could be suggested that this diversified power is now qualitatively indistinguishable from the power of other financial conglomerates. This was the argument made by Sweezy and other members of the MC school. And if this is the case, then it makes little sense to analyze the power of investment banks separate from other giant financial services conglomerates. In what follows, I argue that as far as *functions* are concerned the large FIRE corporations may indeed be indistinguishable from one another. And this has been the case especially since the disappearance of independent investment banks in 2008. But if we want to explain why investment banks rose from insignificant players in the early 1980s to diversified giants in the 2000s, then I argue that it still makes sense to analyze them separately. This is not because of any distinctiveness in their functions, but due to the rather unique ways they have manoeuvred within, and also shaped, the global shift towards neoliberal regulation from the 1980s to the current crisis.

## Diversified power and neoliberal regulation

The 'Volcker Shock' (1979–1982) is often considered to be a 'founding moment' in the history of neoliberalism (Panitch and Gindin 2009: 23). Little consensus exists as to the exact causes of the 1970s inflation, nor as to what allowed the Federal Reserve under Paul Volcker to raise interest rates in order to combat it.

But one important consequence of the Volcker Shock seems clear-cut. The Federal Reserve's 'sound money' crusade, which saw prime lending rates increase from 7 per cent in 1976 to 19 per cent in 1981,[12] irreversibly disrupted the 'live-and-let-live compact' that had up till then existed between investment and commercial banks on opposites of the Glass-Steagall Act of 1933 (Hayes and Hubbard 1990: 110).[13]

Volcker's interest rate hikes had a negative impact on the commercial banking side of the Glass-Steagall wall. Interest rate ceilings on bank deposits imposed as part of Glass-Steagall's Regulation Q served as a particular disadvantage to commercial banks, whose deposit base was being stripped away by the investment banks' money market mutual funds. These investment vehicles proved popular in the context of high interest rates, offering market rates of return and all the basic features of a bank account. On the assets' side, rising interest rates made bank loans more costly relative to securities markets, and the issuance of commercial paper became a favoured option in corporate financing. This directly benefitted the investment banks that underwrote these and other debt issues.

The commercial banks started to voice complaints that Glass-Steagall was being applied unevenly to the benefit of investment banks. But they did not respond by advocating the re-establishment of Glass-Steagall barriers. While they may have been negatively impacted by the onset of neoliberalism, the commercial banks felt that neoliberal financial deregulation would help restore their once-dominant position. As Thomas G. Labrecque, former president of Chase Manhattan, put it, '[t]he solution is not to rid ourselves of the invaders on our turf … Rather we've got to be allowed to compete more fully in the marketplace' (cited in Bennett 1982: 12). In other words, commercial banks wanted access to securities market business that the neoliberal monetary policy had made so appealing.

Some commercial banks tried to invade the investment banks' turf by exploiting loopholes within the legislation (Bleakley 1984). But this was staunchly resisted by the investment bankers' main professional association, the Securities Industry Association (SIA), and led to protracted legal battles (Hall 1986). During this time, the weight of the government was firmly tilted in favour of the investment banks. Federal Reserve chairman Paul Volcker (1979–1987) and Treasury Secretary Donald Regan (1981–1985), a former Merrill Lynch CEO, were lukewarm towards dismantling of Glass-Steagall barriers (Schlesinger 2002). In 1981 the government did, however, agree to phase out Regulation Q. But this was done only gradually over a five-year period, and by the time the final ceilings were abandoned in 1986, the damage to commercial banks' deposit base had already been done. Even though inflation was 'tamed' and interest rates declined through the early to mid-1980s, there was little sign of commercial banks recapturing their traditional business back from securities markets (Hager 2010).

Government reticence towards dismantling Glass-Steagall underpinned the investment banks' power to exclude commercial banks from their business. But to what extent did this actually impact accumulation? The accumulation trajectories of investment and commercial banks during the early phase of neoliberalism were impacted by myriad factors. As a result, any attempt to empirically assess the impact of the Volcker Shock on their accumulation is necessarily speculative. Issues concerning regulation were, however, constantly debated in the financial press during this period; and for some, the regulatory barriers of Glass-Steagall were regarded as the 'most urgent issue for the US financial community' (*Economist* 1987: 5).

With this in mind, there is evidence to suggest that the ushering in of the neoliberal era, specifically the switch to monetarism and deregulation, lead to the dramatic restructuring of power from commercial banks to investment banks. Figure 3.3 plots the differential capitalization and profits of the top five investment banks relative to the top five commercial banks (again ranked by market capitalization). Here we see that from 1975 to 1985 the differential profits of the investment banks doubled from 0.17 to 0.34 times commercial banks, before doubling again to 0.68 in 1987. Meanwhile their differential capitalization rose from 0.1 in 1975 to a high of 0.67 in 1985.

In the early stages of the 1980s 'bank wars' (Prins 2004), investment banks were the clear victors. Yet as Figure 3.3 also shows, by the mid-1980s the course

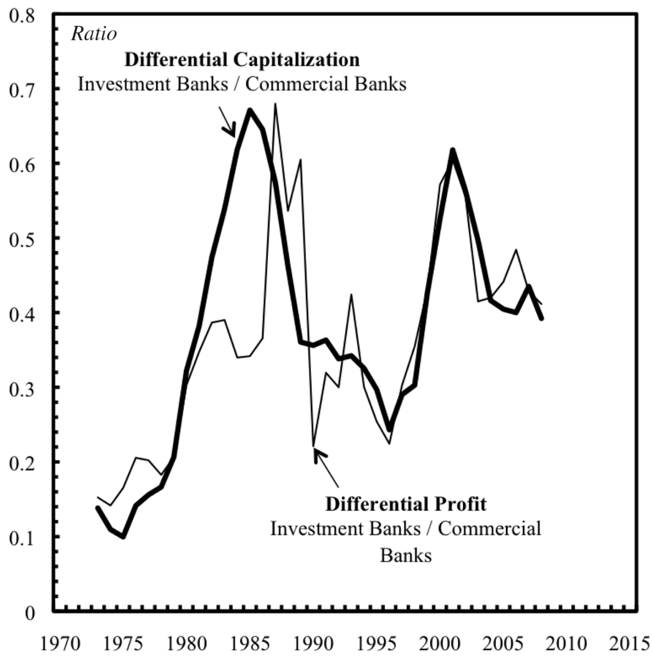


*Figure 3.3* Differential accumulation: investment banks.

*Note*: Series smoothed as three-year moving averages.

*Source*: Compustat through WRDS (series codes: see Figure 3.2) of accumulation would turn against them. Reeling from the 1987 stock market crash and insider-trading scandals, the differential capitalization and profits of large investment banks started to plummet. The onset of this fallout was doubly fortuitous for the commercial banks as it coincided with the 1987 appointment of Alan Greenspan, the high priest of neoliberal deregulation, to replace Volcker as Federal Reserve chairman. Greenspan, who previously held posts on the board of directors for commercial banks J.P. Morgan and Morgan Guaranty Trust, immediately set his sights on dismantling Glass-Steagall. The Fed never made reference to the disadvantaged position of commercial banks in trying to justify deregulation. Instead it argued that Glass-Steagall stood as an unnecessary barrier to the more efficient forces of free-market competition (Greenspan 2007). And given deregulation in other parts of the world, the Fed feared that Glass-Steagall was hampering the global competitiveness of the US financial system (Rosenstein 1989). Soon new provisions were passed allowing commercial bank subsidiaries to underwrite some securities. From a position of weakness, the investment banks, led by the SIA, finally dropped their opposition to Glass-Steagall reform in 1989 (Bush 1989).

With dominant financial intermediaries now united in pushing for neoliberal deregulation, the Glass-Steagall Act was gradually chipped away throughout the 1990s and officially repealed in 1999. The deregulation wave of the 1990s was accompanied by a wave of merger/conglomeration that effectively removed most of the remaining functional and regulatory distinctions between commercial and investment banks. The 'main divide' was no longer between commercial and investment banks, but between giant financial conglomerates and their smaller, less diversified banking counterparts (Johnson and Kwak 2010: 86).

The data suggest that the repeal of Glass-Steagall did not have a negative impact on investment bank accumulation. Relative to dominant capital as a whole (see Figure 3.2), the differential capitalization of the investment banks grew rapidly in the 2000s. And relative to dominant commercial banks (see Figure 3.3), the investment banks were able to 'tread water' from 2003–2007 after a decline which likely had more to do with the dot com crisis than with the repeal of Glass-Steagall. But as the current crisis has now made plain, the ability of investment banks to keep up in the post-Glass-Steagall world was built upon an edifice of (leveraged) sand. Like the initial rise of investment bank power, the collapse of the independent investment bank model can only be explained with reference to the unique ways in which investment banks experienced neoliberal deregulation. In other words, the analysis here suggests that the generally accepted explanation of neoliberalism as a class project of 'finance' in general, or of 'big finance' in particular, is misleading insofar as it neglects the inter-sectoral power struggles between financial firms over the course of regulation.

After the demise of Glass-Steagall commercial banks remained subject to the regulations of the Federal Reserve, the Federal Deposit Insurance Corporation and the Comptroller of the Currency, whereas investment banks continued to be supervised by the Securities and Exchange Commission (SEC). It was during this time that the large investment banks wanted to expand further into booming businesses such as asset-backed securities and derivatives (Labaton 2008). The only thing that stopped them from doing so was the SEC's 'net capital rule' that required investment banks to limit debt to twelve times their equity. This rule made it difficult for the investment banks to compete with commercial banks in the increasingly complex world of finance. Despite the long-term decline of their deposit base, the balance sheets of commercial banks were still significantly larger than the investment banks, and this allowed them to take significant investment positions without resorting to excessive leveraging (Prins 2009). Led by Goldman CEO Henry Paulson, the investment banks began in 2000 to lobby for changes to the net capital rule.[14] In a now infamous decision in 2004, the SEC gave into pleas by the 'big five' investment banks to self-monitor their investment positions through their own risk models (Ritholz 2009).

Investment bank leverage increased 42 per cent from 2002–2007, and by 2007 assets were 31 times equity (Roxburgh *et al.* 2010). This explosion was funded primarily through short-term instruments (70 per cent of total assets 2006) such as repurchase agreements (repos). Under stricter regulations and with bigger balance sheets, commercial bank gross leverage actually decreased three per cent from 2002–2007, and at the height of the 2007 boom the ratio of commercial bank assets to equity was 12 to 1, and only 11 per cent of their funding in 2006 was short term.

The precariousness of this situation became painfully obvious with the onset of crisis in 2007–2008. As doubts about the quality of the mortgage-backed securities held by investment banks grew, repo market creditors began to demand more collateral in exchange for financing (Gorton and Metrick 2009). Faced with difficulties in rolling over their debt, the investment banks were pushed towards insolvency. By the end of 2008, only two of them had survived the tumult, and they did so only by abandoning their legal status as investment banks.

In the course of several months in 2008, any of the remaining vestiges of the 75- year old regulatory separation of commercial and investment banks vanished. The collapse of independent investment banks has proceeded hand in hand with a loss of faith in neoliberal regulation. And as a result, calls for reform of the US financial system have been growing. Some of the more far-reaching proposals have even called for a restatement of the Glass-Steagall Act in order to provide the wider financial system with a buffer against the activities of investment banks. But as I have argued elsewhere (Hager 2012), the prospects for meaningful regulatory change are hampered by both domestic and global factors. Domestically, the recent recovery of the US FIRE sector's profits and capitalization as a share of the US corporate sector may mean that the opportunity for substantial reform may have already passed. Meanwhile the continued decline of US FIRE relative to its global rivals may pose a further stumbling block to regulation, as belief in the sanctity of global competitiveness helps to defray the domestic backlash against the financial sector.

## Conclusion

The analysis of investment bank power here has been framed primarily as a theoretical-empirical engagement with the MC school approach. I have suggested that the MC theory's ability to explain the power of investment banks is severely limited by its bifurcated view of accumulation. The MC theory clearly situates investment banks within the 'fictitious' (financial) sphere of accumulation, and suggests that the power of investment banks is ultimately dependent on what happens in the sphere of 'real' accumulation. But without any convincing methods to explain and measure the interaction of these 'fictitious' and 'real' spheres, the MC school fails to account for changes in investment bank power over time. Rather than passively absorbing surplus, I argued that the investment banks have actively imposed their order on society through the process of differential capitalization.

The alternative focus on differential capitalization indicates that the power of investment banks grew rapidly alongside the rise and consolidation of neoliberalism in the early 1980s through to the onset of the current crisis. What this analysis suggests is that investment bank power is not transitory, but transforming. The resilience of investment bank power is bound up with their abilities to constantly transform their accumulation strategies. Investment banks have diversified their activities far beyond their 'traditional' role as securities market agents. But the distinctive experiences of investment banks in maneuvering to secure advantages within neoliberal regulation highlights the dangers of dwelling on the functional similarities they share with other diversified financial services conglomerates.

Whether or not the surviving investment banks will continue to transform and augment their power is an open question. The current crisis has brought the most serious challenges to the investment banks since the 1929 crash. And the collapse of three of the big five is evidence that the so-called 'masters of the universe' are by no means omnipotent. At the same time, the ability of surviving investment banks to not only weather, but in some cases also to profit from, the recent turbulence points to the resilience and flexibility of their power. Any discussion of the prospects to reign in the power of investment banks must, I suggest, take into account these dynamics of power.

In the end, one of the main questions dividing those on the 'critical' side of political economy is strategic: should the goal be to harness power through regulation or eliminate power altogether? The alternative focus on differential capitalization suggests that regulation has a significant impact on power. At various points in the history of neoliberalism, the struggle over regulation has been at the heart of accumulation. It has not merely 'affected' accumulation from the outside. To the extent that regulation is perceived to impact the course of future earnings it becomes a key facet of accumulation. At the same time, the analysis also highlights how dominant capital groups are able to effectively limit the imposition of meaningful regulatory change even through periods of crisis.

Here too a focus on differential capitalization provides tools to analyze the ways that capitalist power shapes and limits regulation. Whatever the precise answer to the strategic question, the analysis here argues that in order to confront power we must first radically rethink our categories and concepts. And that involves rethinking capital accumulation: the process through which dominant capitalists re-shape and restructure society.

## Notes

1 I would like to thank Tim Di Muzio for his helpful feedback on earlier drafts of this chapter. The usual disclaimers apply.
2 The accumulation process is conspicuously absent from studies focusing on individual investment banks: Knee 2007; Farrell 2010; McDonald 2010; McGee 2010; Cohan 2011; studies focusing on the investment banking sector: Augar 2006; Lowenstein 2011; and studies focusing on the broader finance, insurance and real estate (FIRE) sector whilst paying particular attention to investment banks: Prins 2004; 2009; Ritholz 2009; Sorkin 2009; Johnson and Kwak 2010.
3 Of course the monopoly capital school is not the only school of Marxism to analyse the dynamics of financialization and the rise of finance capital over the past three decades. An exhaustive review of this literature is outside of the scope of this chapter. But many of the critiques that I make here, especially concerning the problematic bifurcation between the 'real' and 'nominal' spheres, could apply equally to other accounts.
4 For more detailed explications of this tendency and its relation to the laws of motion of orthodox Marxism, see Baran and Sweezy 1966; Howard and King 1992.
5 On the problem diversification poses for profit accounting, see Nitzan and Bichler 2009.
6 My overview of CasP in the next five paragraphs draws on Nitzan and Bichler 2009; 2010.
7 The revulsion of the ruling class to mechanistic science is described in E.L. Doctorow's (1974: 150) masterpiece of historical fiction, *Ragtime*. In the novel, the overlord of investment bankers, J.P. Morgan, derides the mechanical worldview of Newton and Descartes 'as a devilish conspiracy to destroy our apprehension of reality and our awareness of the transcendentally gifted among us'.
8 Nitzan and Bichler (2009) refer to this constant creation of order as a 'creorder'.
9 Differential measures are calculated as a ratio of the average market capitalization (or net profit) of a top five investment bank relative to the average market capitalization (or net profit) of a top 100 corporation.
10 Whether we focus on the top five investment banks or all investment banks in the Compustat database makes little difference because the top five clearly dominates. For example, in 1971–1975 they held 85 per cent of the net profits of the sector and 93 per cent in 2004–2008.
11 The underwriting spread is the difference between the price paid by the investment bank to an issuing corporation for its securities, and the price the issue is then sold for in securities markets.
12 Data is from the IMF through Global Insight (series code: A111L60P.A).
13 The most important feature of the Glass-Steagall Act was that it barred deposit-taking commercial banks from engaging in the securities underwriting and trading undertaken by their investment bank counterparts.
14 Paulson would later go on to serve as Treasury Secretary from 2006–2009. For an eye-opening account of the revolving door between Goldman Sachs and the US federal government, see Johnson and Kwak 2010: 92−4.

# 4 NAFTA, investiture and distribution

## The power underpinnings of trade and investment liberalization in Canada[1]

*Jordan Brennan*

More than 20 years have passed since the Canadian Government took a 'leap of faith' and entered a trade and investment liberalization (TAIL hereafter) regime with the United States.[2] Socially divisive at the time, TAIL remains contested today both north and south of the Canada–US border. Evidence for this can be seen in the clandestine fashion in which the Canadian government is pursuing a bilateral TAIL agreement with the EU and the criticism it is beginning to draw (Lewenza 2010). During the 2008 Democratic Party presidential primaries, Senator Obama and Senator Clinton ignited a firestorm, however extinguishable, when they claimed they would potentially withdraw the US from NAFTA[3] if the labour and environmental side agreements were not strengthened (Ibbitson 2008). The opportunism aside, both candidates were preying upon the discontent many in the US probably feel with the looming effects of TAIL. What are we to make of the popular discontent with one of the hallmarks of orthodox economic thinking? After all, arguments in favour of TAIL are as old as the discipline of political economy itself, stretching as far back as the Scottish Enlightenment.[4] And as Paul Krugman puts it, free trade is 'as close to a sacred tenet as any idea in economics' (1987: 131), so are we to attribute the popular discontent to economic illiteracy or to something else?

In his essay *On Liberty*, John Stuart Mill [1859] (2002: 60) urged us to question continuously the reigning ideas of our time, lest they degenerate into dead dogmas. Mill believed that uncritical submission to inherited opinion is incompatible with the free exercise of our higher faculties. The consensus among mainstream economists on the question of TAIL, both across space and through time, could be greeted as a smashing success by the 'science' of economics into the 'natural laws' of capitalism. Then again, it could be greeted with suspicion, for it might signal that mainstream economics is a particular way of seeing the world – a two century-old habit of thought – that consistently describes and prescribes in a uniform manner. Belief in this 'sacred tenet' invites the question: is the orthodoxy's confidence in the broad-based benefits of TAIL the product of scientific scepticism or of something else?

This chapter will employ tools from the capital as power framework pioneered by Nitzan and Bichler (2009) to investigate the effects of the TAIL regime on the Canadian political economy. The focus will be on the distribution of income, contrasting returns to labour (wages) with returns to capital (differential business performance) in the pre-TAIL and TAIL eras. The chief claim this chapter will make is that the remarkable shift in distributional outcomes witnessed in the TAIL era is the manifestation of the increasing differential power of capital. The argument will be delivered in five sections. The first section will offer a primer on the capital as power framework. The second will historically contextualize the move towards TAIL in Canada. The third will examine broad changes in the distribution of income and the fourth will explore shifts in the pattern of differential business performance. The final section will provide a qualitative explanation that ties together the quantitative facts encountered in the third and fourth sections.

## Capital as a power institution

The capital as power framework approaches capital as the central institution of the political economy and its accumulation as the generative process (this brief synopsis is inspired by Nitzan and Bichler 2009). Mainstream and Marxist political economy think of capital as an economic category anchored in material reality. From there capital is parcellated into different types or kinds, the most fundamental division being between the 'real' capital or 'capital goods' embodied in tools, machines and factories and the 'financial' capital associated with the equity and debt traded on the stock and bond markets. Nitzan and Bichler dispense with the *à la carte* approach, claiming instead that capital is vendible, commodified power. The claim that capital is a monolithic power institution is analytic rather than synthetic, for power is built into the definition of capital. The reason is as follows. The institution of capital centres on private ownership. The word 'private' is derived from the Medieval Latin *privare* which means 'to deprive' and *privatus* which means 'restricted'. Contrary to popular understanding, private ownership is not an institution which enables those who own, but one which disables those who don't own. And in the final analysis institutionalized exclusion is a matter of organized power.

For us to understand accumulation we cannot conceptually divorce the economy from the polity or capital from the state. The architecture of prices and the magnitude of capital are neither reflections of scarcity nor marginal productivity, but are the symbolic quantification of the differential power of absentee owners (investors) to restructure society against opposition. This power manifests itself in the universal quantitative logic of capitalization. The assets owned by investors stretch far beyond tools, machines and factories to include everything from inventions to ideas to human beings and nature itself. But this implies direct and indirect control over those very inventions, ideas, human beings and natural objects held as assets, something that cannot be meaningfully separated from the broader power institutions of a given society.

Some will interpret the identity of capital with power as far-fetched, even conspiratorial. The uneasiness might stem from one rather troubling implication of Nitzan and Bichler's theory. Those who accumulate capital not only accumulate power; power becomes the dominant motivational energy behind their action, an implication that doesn't easily synchronize with our sanitized liberal-democratic sentiments because of its Hobbesian overtones ('I put for a general inclination of all mankind, a perpetual and restless desire of power after power, that ceaseth only in death' [1651] (1985: 161)). However, the relationship between private ownership and power isn't far removed from some of the key ideas in modern political theory. Both the patron saint of liberalism, John Locke, and the father of modern economics, Adam Smith, hint at this relationship. Locke would have us believe that 'government has no other end but the preservation of property' [1690] (1980: 51) and in his *Lectures on Jurisprudence*, Smith details the relationship between the two, telling us: 'Till there be property there can be no government, the very end of which is to secure wealth, and to defend the rich from the poor' [1766] (1987: 40). Locke and Smith appear to be in agreement that in a pre-political situation ('the state of nature') one would find 1) large inequalities of wealth that 2) are secured through a state which defends the riches of the owning class from those who don't own. But in this they get the causal sequence backwards because private ownership depends on the existence of a power institution like the state to *enforce* exclusion.

Because power is a relational concept it only has meaning when compared with other sources of power. In the same way that force only becomes force in the face of counter-force or resistance, power must operate on something other than itself to be power. One implication is that capitalists do not strive to 'maximize profits'. The performance of an investor or CEO is not measured against an absolute standard, but against a relative benchmark. Investors are conditioned to *out*perform rivals and accumulate *faster* than the average, that is, they strive to accumulate *differentially*. The distinction might sound soft, almost semantic, but shifting our thinking from absolute to differential accumulation (see glossary) yields a new set of questions, a different set of measures and an altered landscape of meaning. Because the political economy is conceived as a terrain of struggle, and because power is inherently differential, distributional outcomes become the very manifestation of power. A further implication of thinking in differential and distributional terms is that any inquiry into the development of the political economy should begin with the largest firms that stand at the centre of the political economy, or what Nitzan and Bichler refer to as 'dominant capital' (see glossary).[5]

The genealogy of the capital as power framework is diverse, but a primary source of inspiration is Thorstein Veblen. Writing at the turn of the twentieth century, it was apparent to Veblen that America was being transformed by big business. But even as the giant corporation was having a greater impact on the political–economic life of the community, the political economists had failed to give an adequate account of the relation between this institution and the broader culture. In addressing this problem, Veblen drew a distinction between 'business' and 'industry', terms which most people think of as synonyms but to Veblen were becoming closer to antonyms. Business centres on investment for profit. The language used is that of accounting and the units of measure are universal pecuniary values. The (immaterial-financial) business system is driven by capitalists competing for 'differential advantage' [1904] (2005: 18), something that is secured through the extension of ownership and control and which presupposes conflict and antagonism amongst owners and between owners and non-owners. Industry, by contrast, is the domain upon which the economic welfare of the community rests. This (material-productive) domain contains the inherited knowledge of previous generations and is calibrated through heterogeneous material units. Its goal is the efficient and innovative servicing of the community's needs, something that requires cooperation and planning. If these two domains are inherently distinct, how are they related? In a word: vertically. As Veblen saw it, the 'industrial system is organized on business principles and for pecuniary ends [with the] business man [at] the center…' [1904] (2005: 27). Since the writings of Locke we have been led to believe that private enterprise is a natural institution (it exists in the pre-political state of nature) because it is a direct extension of private ownership over one's body and labour, but to Veblen:

> any person who has a legal right to withhold any part of the necessary industrial apparatus or materials from current use will be in a position to impose terms and exact obedience, on pain of rendering the community's joint stock of technology inoperative to that extent. Ownership of industrial equipment and natural resources confers such a right legally to enforce unemployment, and so to make the community's workmanship useless to that extent. This is the Natural Right of Investment. [1923]
>
> (2004: 65–6)

Drawing on Veblenian categories (and others), Nitzan and Bichler have altered the parameters of our discussion of the accumulation of capital. Using aggregate and disaggregate measures and looking at accumulation in differential and distributional terms may assist us in making sense of the striking distributional changes witnessed in the TAIL era.

## Contextualizing trade and investment liberalization in Canada

Far from having active supporters throughout its history, TAIL has tended to find an unreceptive audience among ruling elites in Canada. Part of the reason for anti-TAIL sentiment can be found in Canadian political culture. Unlike the US, which is thoroughly liberal-whig or bourgeois in values, Canada has traces of toryism and socialism in its official politics. Both ideologies are opposed in one way or another to liberalism and have the potential to be protectionist and nationalist in orientation. Shifting from political culture to historical events, a variety of political–economic and military forces, not least the end of the American Civil War, culminated by the mid-1860s so that 'reciprocity' between Canada and the US ended. This development propelled the Canadian statesman, John A. Macdonald, to propose that the maritime colonies unite with Canada East and

West in a confederation that might ensure the preservation of their independence. In 1866 Macdonald's political platform called for the extension of Canada's boundaries horizontally along the American border, a linking of the territory by rail and the establishment of tariff barriers to protect the domestic market for Canadian industry (Beatty 2002). The Canadian federation was spawned, then, from anti-TAIL policies, and successive Canadian governments have had to work at safeguarding Canadian independence, something they considered threatened by TAIL.

Aversion to TAIL among ruling elites persisted through much of the twentieth century but began to change in the 1970s when liberal governments undertook overtly nationalist policies, including rejecting TAIL with the US. This prompted dominant capital in Canada to re-evaluate its way of doing politics. Up until then, dominant capital had lobbied political parties, helped them financially and supported them behind the scenes. In 1976 the Business Council on National Issues was formed (since re-branded the Canadian Council of Chief Executives (CCCE)), made up of the CEOs of the largest corporations operating in Canada. Taking their cue from the Business Roundtable in the US, the explicit objective of the organization was to have dominant capital participate directly in the policy-making process. In the late 1970s and early 1980s, the CCCE led an 'attitude adjustment' within the business community which, until then, showed little appetite for a TAIL deal with the US. But by the early 1980s there was a near consensus on the issue of TAIL (McBride 2005: 58). Indeed, even before a free trade deal became part of the Mulroney Conservatives' policy platform, the CCCE led a delegation to Washington to try to promote the idea to the Business Roundtable and Reagan Administration. And in 1983 the CCCE began promoting the idea to the Canadian public. Despite this, Brian Mulroney campaigned against TAIL during his 1983 Tory leadership race. However, after winning the 1984 election the Tory cabinet was invited by the CCCE to an extensive briefing at a secluded retreat in Quebec. The following year, at the Shamrock Summit in Quebec City, Mulroney and Reagan formally announced the launching of free trade negotiations. That same year, Mulroney's conversion from anti- to pro-TAIL was vindicated by the Macdonald's Commission's findings (see endnote 2), which made TAIL with the US the centrepiece of its three-volume report on Canada's economic future (Clarke 2007). By the time the liberals came to power later in 1993 they sensed the change in the ideological climate. Jean Chrétien, the Liberal Prime Minister would famously remark: 'Protection is not left wing or right wing; it is simply passé. Liberalization is not a right-wing or left-wing issue; it is simply a fact of life' (quoted in Alexandroff 1993: 56). And with this, the conversion of Canada's ruling elites from anti- to pro-TAIL had been completed.

TAIL was sold to the Canadian public on two related grounds: necessity and prosperity.[6] Canadians were told that technological change meant that production and markets were globalizing, and should Canada not secure predictable access to the US market it would be relegated to the periphery of the global political economy (Trefler 1999). Fear was not enough to induce Canadians, however. TAIL also had to hold out the promise of enhanced prosperity. The promises and predictions of TAIL were issued from a variety of sources. The Economic Council of Canada predicted a 1.8 per cent boost in employment (Robinson 2007: 261). The Canadian Department of Finance predicted a boost to long-term economic performance, including a long-term increase to real GDP of 3 per cent. The productivity gap between Canadian and US manufacturing was supposed to close along with a boost to long-term productivity growth. And on the question of distribution, the explicit assumption was that gains from TAIL would be shared with workers in the form of higher wages (Jackson 2003: 2).

How are we to assess the validity of the (neoclassical) predictions and the public promises that are derived from them? The success or failure of TAIL, however qualified, has continuing political relevance, for the Canadian government is pursuing an ambitious TAIL agreement with the EU and is marketing this deal to the Canadian public on the apparent success of NAFTA (McParland 2008). But was NAFTA a success? If yes, by what criteria? Table 4.1 presents a few basic performative indicators for the Canadian political economy. What these broad facts tell us is that inflation-adjusted ('real') GDP growth did not pick up after the institution of a TAIL regime, nor was labour productivity boosted. Unemployment increased with the inception of the TAIL regime, and it took an entire decade to recover the jobs lost in the TAIL-induced recession of the early 1990s. The 1980s was a tough decade for organized labour, but inflation-adjusted wages have been stagnant in the TAIL era and continue to trail labour productivity. The trends in Canada mirror those in the OECD to an extent, but the promise of TAIL was not supposed to be dependent on global economic performance. These facts alone are insufficient for generating conclusions, but at the very least they tell us that we ought to be sceptical about the public promises made by TAIL's advocates and suspicious of the theories that informed those promises.

*Table 4.1* Basic performative indicator (decade average growth rate)

| *Measure* | *1950s* | *1960s* | *1970s* | *1980s* | *1990s* | *2000s* |
|---|---|---|---|---|---|---|
| 'Real' GDP | 4.8 | 5.1 | 4.1 | 3.0 | 2.4 | 2.1 |
| 'Real' Wages | 3.30 | 2.35 | 2.78 | –0.02 | 0.63 | –0.49 |
| Labour Productivity (Business Sector) | – | 3.8 | 2.5 | 1.3 | 1.6 | 1.0 |
| Labour Productivity (Manufacturing) | 3.9 | 4.4 | 3.4 | 2.2 | 3.3 | 1.0 |
| Unemployment Rate | 4.2 | 5.1 | 6.8 | 9.4 | 9.6 | 7.0 [10*] |

* Including discouraged and involuntary part-time workers.

*Source*: GDP from Statistics Canada; unemployment rate from the OECD (discouraged and involuntary part-time workers from Cansim Table 2820086); hourly earnings from the IMF; manufacturing productivity from the Bureau of Labour Statistics, all through Global Insight; business sector labour productivity from Cansim.

## Some animals are more equal than others

Let us shift our focus away from the critics of TAIL to a broad measure of distribution: the Gini coefficient.[7] Figure 4.1 contrasts the Gini coefficient with the unemployment rate since the mid-1960s. This figure shows us two things. First, sharp rises in the Gini coefficient (increases in income inequality) correspond with increases in unemployment. Second, the positive correlation between the Gini and unemployment only holds when unemployment rises. When unemployment falls the Gini remains stubbornly steady. We can infer from this chart that crises correspond with redistribution. In 1989, just as the Canada–US Free Trade Agreement (CUFTA) was coming into effect, Canadians witnessed a sharp increase in unemployment and a corresponding spike in the Gini coefficient. Income inequality would rise for nearly ten consecutive years following the implementation of CUFTA, and though the unemployment rate fell back to pre-CUFTA levels by 2000 the Gini coefficient did not shrink proportionately with it.

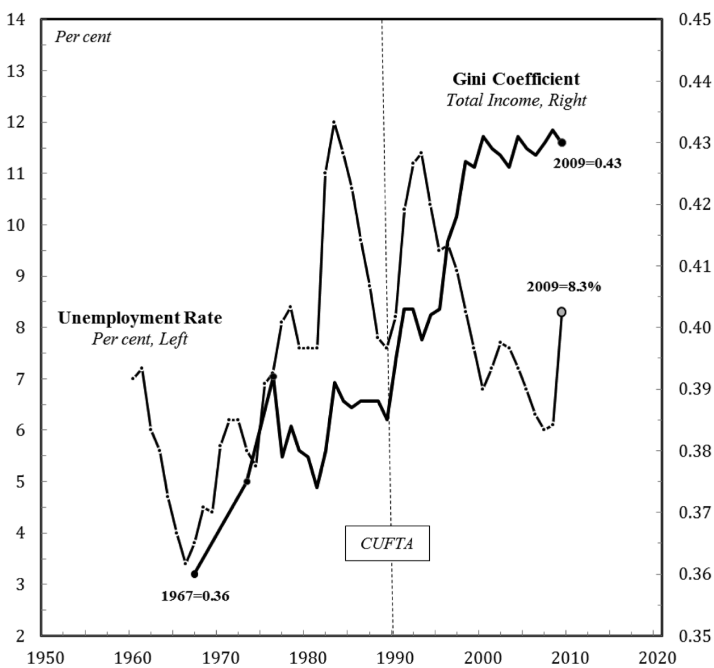


*Figure 4.1* Unemployment and income inequality in Canada.

*Note*: CUFTA stands for the Canada–US Free Trade Agreement. Gini coefficient values for 1967 and 1973 are base on figures from Wolfson (1997), table 1. Data are interpolated for 1967–1973 and 1973–1976.

*Source*: Cansim Table 2020705 for Gini coefficient (total income); OECD through Global Insight for unemployment rate.

Therefore, crisis and unemployment led to a stable redistribution of income. And while the data for the Gini coefficient ends in 2009, if the pattern of the preceding 40 years holds we can expect the latest spike in unemployment attributed to the global financial crisis to correspond to even higher levels of inequality, and so, redistribution.

If the TAIL era has corresponded with greater income inequality we should take a magnifying glass to the aggregate income distribution in order to identify the movement of its constituent parts. Until very recently (Yalnizyan 2007, for instance) it was thought that income inequality in Canada was being driven by the income share of the top quintile, with the gains likely concentrated in the top decile. More precise data were unavailable until the work of Saez and Veall (2003; 2005; Veall 2010) supplied us with a picture of the top income share in Canada over the past century. What the work of Saez and Veall reveal is that income inequality in Canada is not being driven by the top quintile or even decile, but by the top percentile. Figure 4.2 presents a disaggregated view of the income share of the top decile and a long-term view of the top percentile in Canada.

There are a few things to note in this figure. First, the top percentile saw its share of national income fall dramatically during the Second World War.

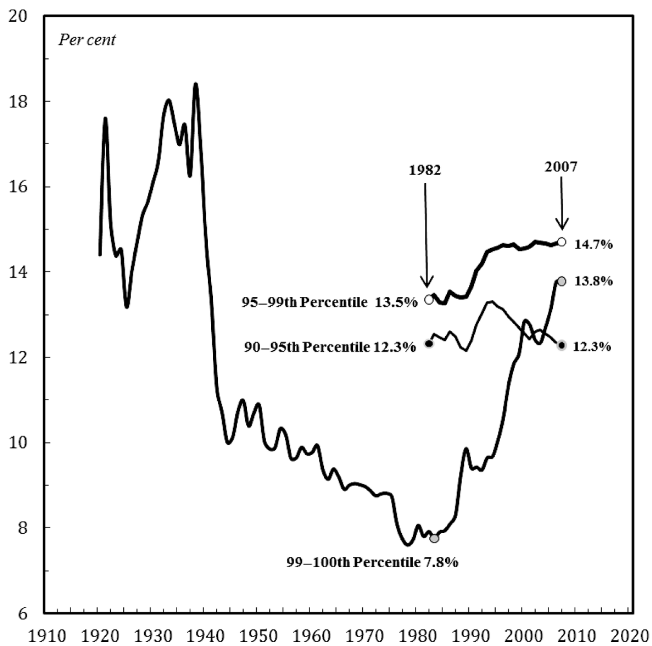


*Figure 4.2* Top income shares in Canada, 1920–2007.

*Note*: Gross market incomes (reported for tax purposes) excluding capital gains.

*Source*: Veall (2010) Figures 1, 4 and 5 (pages 9, 12 and 13).

This transformation was probably closely tied to the war-time move towards a centrally planned political economy replete with price controls. The end of the war did not restore the top percentile income share. Instead, the 'golden age of controlled capitalism' saw the top income share fall even further. This period saw an increase in union density, roaring economic growth, wage gains and a corresponding demographic bulge in the middle class. By the 1980s the top percentile decline eventually stabilizes, then begins to rise around 1987 (two years prior to CUFTA).

A second thing to note about this figure is that the income share of the 90–99th percentiles has hardly budged since 1982. It is the surging distributional gains made by the top percentile that is driving income inequality across Canadian society over the last generation. An earlier study (Piketty and Saez 2003) of income inequality in the US found the top income share to have also taken a U-shaped form over the twentieth century, and subsequent research shows the trend in Canada is mirrored in the broader Anglo world (though not in continental Europe, where the top percentile income share is L-, not U-shaped).[8] This suggests that institutions, not globalization, are paramount in explaining these trends.

The mainstream explanation for these dramatic distributional changes is to point to technology and trade, or simply 'globalization'. These forces, it is said, have altered the demand for certain types of labour. As a result, 'flexible skills' are in high demand in the knowledge economy and get rewarded at a higher rate than other skills. People with low education or with low skill levels are having their wages bid down by the developing world, hence the increase in income inequality (Jaumotte *et al.* 2008). The ideological significance of this line of reasoning is so obvious that it barely requires mention. By rooting distribution in the blind, impersonal forces of technology and trade the more substantive questions about how our very human-created institutions shape distributional outcomes are neatly side stepped, especially questions about power (see endnote 6). The neoclassical explanation for the distribution of income is rooted in intellectual support structures stretching back to the nineteenth century, chiefly, but not only, the marginal productivity theory of distribution and the production function. But the Cambridge capital controversies (see Cohen and Harcourt 2003 for a review) demonstrated the impossibility of explaining wages and profits, that is, the distribution of income across society, by drawing a connection between the physical quantities of labour and capital used in production and the physical quantities of marginal products attributable to these factors (Hunt 2002: 308–9). So how are we to explain these distributional changes?

## Investment, *investitura* and distribution

The word 'investment' is derived from the Medieval Latin *investitura*, which originally signified the acquisition of rank, title and prescriptive right by an office holder. After taking a loyalty oath, a vassal would be *invested* by his overlord with a fief. This ceremony would grant the vassal new powers, among them distributive power. Investiture only began to be used in a commercial sense in the early sixteenth century, and only then in reference to the East Indies trade. It wasn't until the mid-nineteenth century that it began to be used to describe the use of property as a means to profit. For the first few centuries of its life, 'investment' signified a power process which shaped distribution, and it is this sense of the word that Nitzan and Bichler (2009) insist we ought to be thinking.

If the multinational corporation is the predominant form that business enterprise takes, and if it has a (visible) hand in shaping distributional outcomes through *investiture*, then we need to begin our exploration of differential business performance by looking at the relative size and profitability of the largest firms. The largest 60 firms on the Toronto Stock Exchange (TSX), ranked annually by equity market capitalization, are used as a proxy for dominant capital for two reasons: first, the TSX 60 serves as the main benchmark for the performance of large cap firms in Canada; and second, the Canadian political economy is approximately one tenth the size of the US, and the S&P 500 is taken as one of the main benchmarks for business performance globally, so having a proportionate measure for Canada takes us somewhere near the 60 largest firms.

Aggregate concentration may be interpreted as a broad measure of the power of big business. Figure 4.3 presents this measure for market capitalization, net profit and total revenue from the early 1960s onward. Aggregate concentration is a ratio which uses the largest 60 firms as the numerator. The denominator has a slight difference. For the capitalization measure it uses the total market value of all equities listed on the TSX. For net profit and total revenue, the denominator is composed of all Canadian corporations, listed and unlisted.

There are a number of striking features to note in Figure 4.3. First, the concentration measure for capitalization declined for nearly two decades, falling from 27 per cent in 1960 to 13 per cent in 1977. The 1980s saw a gradual upward movement of this measure before its eventual take-off in the early 1990s. The largest 60 firms made up fully 67 per cent of total market value in 2008 – a stunning degree of concentration. The concentration of net profit also falls in the 1960s and 1970s before rising, but its movement is much more erratic and highly cyclical. Nevertheless, the overall profit share of the largest 60 firms has increased from 33 per cent in 1961 to 61 per cent in 2010. The story with revenue is different. Its movement is nearly flat, rising from 19 per cent in 1965 to 22 per cent in 2009. This suggests that larger firm size translates into higher distributional profits, but not because of distributional increases in revenue. This is significant, but we will postpone our discussion of it for now.

Note the timing of the rises. The concentration of the largest 60 firms only takes off in the TAIL era. By 1994, with the inception of NAFTA, the concentration ratio for capitalization is only at 28 per cent, or one per cent higher than in 1960. Net profit was at 28 per cent in 1993, well below its level in 1961. All of the gains in both capitalization and net profit come in the TAIL era, which suggests the TAIL regime played an important role in these distributional changes. A third thing to note is the volatility of net profit compared with capitalization. While the

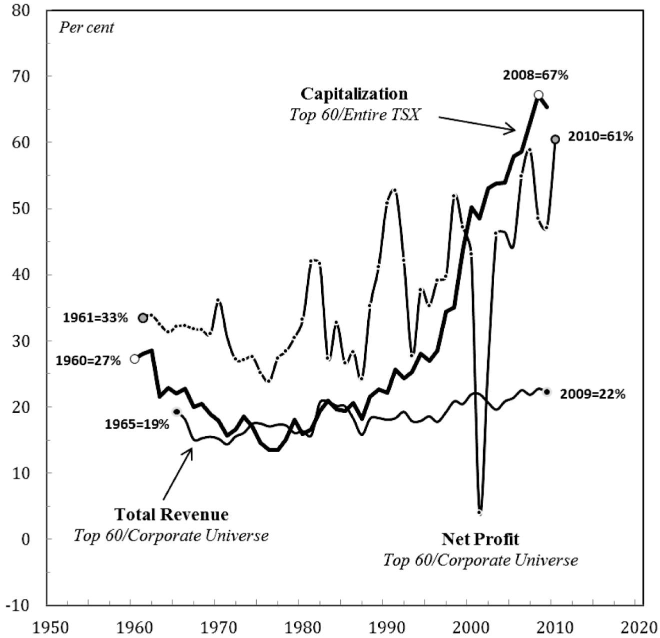


*Figure 4.3* Aggregate concentration in Canada.

*Note*: Ratio of the top 60 firms (ranked annually by market capitalization) and (1) all firms listed on the hte TSX; (ii) all Canadian-based firms (listed and unlisted for net profit and total revenue). Net profits are after-tax.

*Source*: Compustat through WRDS for common shares outstanding share price, revenue and net income; TSX e-Review, Review and Factbook for total market capitalization and number of listed stocks; IMF through Global Insight for total after-tax corporate profit; Cansim for corporate revenue and total number of corporations.

net profit share of the largest firms tends to fluctuate dramatically, the cyclical movement is unmistakably upwards. Capitalization, on the other hand, has a much more stable upward pathway. The reasons for this are unclear, but we should recall that while actual earnings play a role in driving capitalization, they do not do so alone. Other 'elementary particles' include hype, risk and the normal rate of return.[9]

Shifting from aggregate concentration to the profit share of national income yields Figure 4.4. This figure presents the profit share of the Canadian corporate universe and of dominant capital. Putting these measures in historical context enables us to see just how remarkable the TAIL era has been. The pattern for both is cyclical, but there are two things that warrant our attention. First, both measures trend downward in the pre-TAIL era, but explode upwards in the TAIL era. The turning point comes, in both cases, with the inception of the TAIL regime. The cyclical trend is also significant. While the pre-TAIL era peaks for dominant capital remain relatively constant, the troughs become successively deeper.

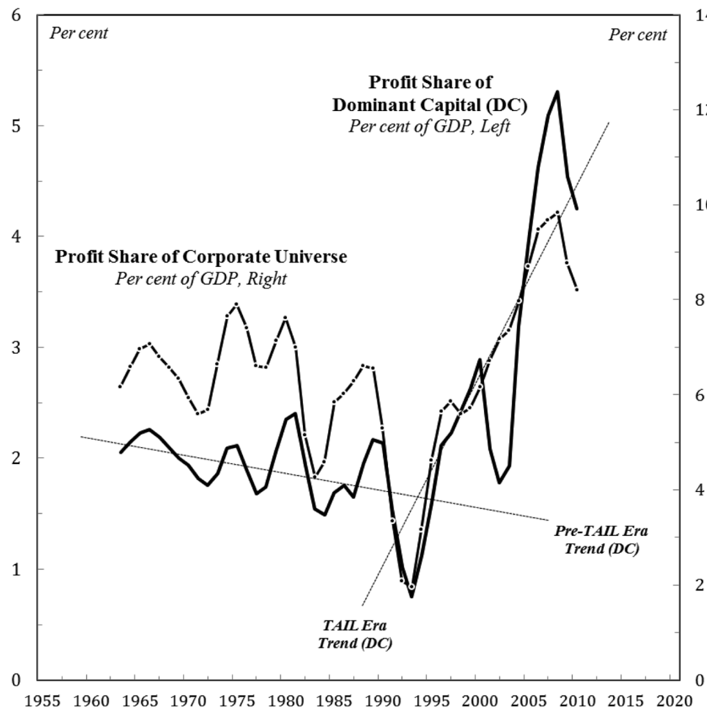


*Figure 4.4* Profit share of national income in Canada.

*Note*: Profits are after-tax. Series smoothed as 3-year moving averages.

*Source*: Statistics Canada through Global Insight for GDP and total corporate profit. Compustat through WRDS for common shares outstanding, share price and net income.

This, too, changes in the TAIL era. The latter half of the twentieth century saw a number of deep cavities in both series, but what is striking is the changed pattern exhibited in the TAIL era. The profit share of dominant capital has never been higher and even the 'great recession' did comparatively little to undermine this trend.

Moving from the profit share of national income to differential accumulation brings us into the capital as power framework proper, because the relevant measures of power are not aggregate but disaggregate (Nitzan and Bichler 2009: 319). Differential capitalization and differential net profit are ratios which are computed in three steps: the first step is to calculate the average capitalization/net profit of a firm within dominant capital; the second is to calculate the average capitalization/net profit of all firms listed on the TSX (and all firms in the corporate universe for net profit); and the third is to divide the first computation by the second. These ratios provide us with the differential power of capital and they are plotted in Figure 4.5.

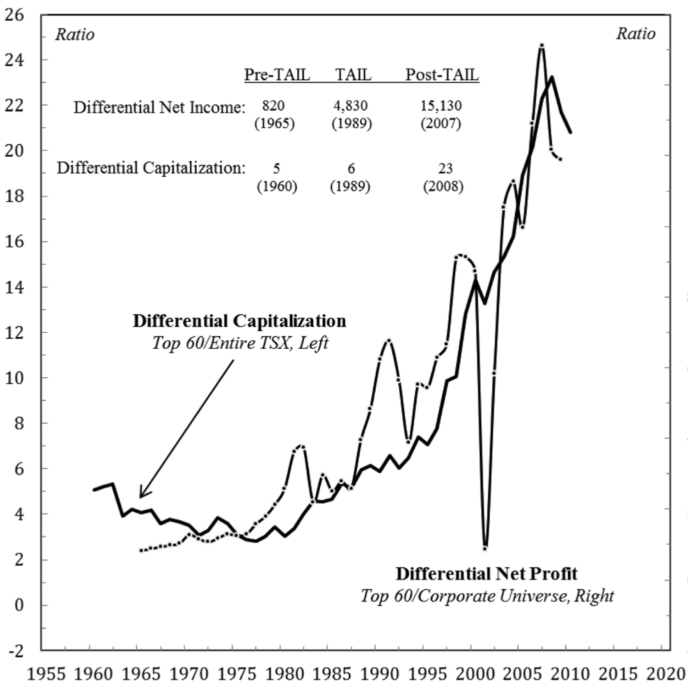


*Figure 4.5* Differential accumulation in Canada.

*Note*: Ratio of the average of the top 60 firms on the TSX (ranked annually by market capitalization) and the average of all firms (on the TSX for differential capitalization; listed and unlisted for net profit).

*Source*: Compustat through WRDS for common shares outstanding, closing share price and net income; TSX Review, e-Review and Factbook for total market capitalization and number of listed stocks; IMF through Global Insight for total corporate profit; Cansim for total number of corporations.

While they are tightly and positively correlated over time (despite the scale differences on the axes), what is striking for the subject at hand is the change in the rate of growth with the inception of a TAIL regime. In 1960 an average firm within dominant capital was five times as large (by market capitalization) as an average firm listed on the TSX. Thirty years later that ratio had risen from five to six. So the pre-TAIL era saw very little movement in relative firm size. Most of the growth in the corporate sector was either evenly distributed between large and small firms or favoured the small (generating negative differential accumulation). Since the inception of a TAIL regime, that ratio has risen from 6 to 23. Dominant capital, then, has effectively delinked from the rest of the corporate universe in the TAIL era, suggesting that something dramatic happened precisely when the TAIL regime was instituted.

Recall that one of the predictions made by TAIL enthusiasts was that gains from trade would be shared between capital and labour. Unfortunately, reality has refused to cooperate with their theory. Figure 4.6 plots the returns to capital and labour since the mid-1950s.[10] Smoothing each series as 10-year moving averages helps eliminate cyclicality and setting each series to 100 in 1966 enables us to track their relative movement. From the mid-1950s to 1990 the inflation-adjusted returns on capital and labour are nearly equal. It was likely because gains from growth were more or less shared that the TAIL enthusiasts made their promises to begin with. But the TAIL era has altered the pattern dramatically. The returns on labour began to slow in the 1980s and stall entirely in the TAIL era, while returns on capital have skyrocketed. Nearly all the gains from growth now flow to capital, a fact which is supported by the information about wage stagnation in Table 4.1. Something dramatic happens just as TAIL is being instituted to change the relationship between these measures, and, as this chapter is arguing, a large part of that change can be attributed to the reorganization of social space and altered power relationships that the TAIL regime entrenched.

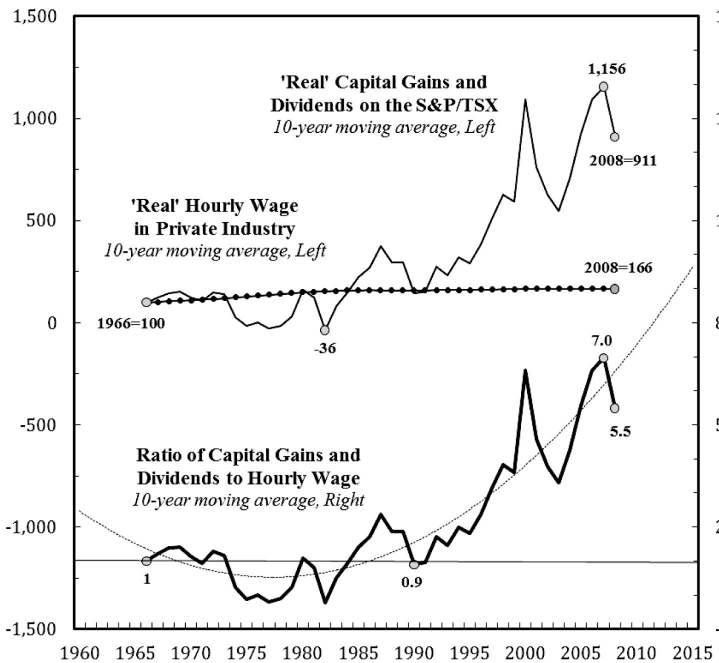


*Figure 4.6* Returns on capital and labour in Canada.

*Note*: Real series are computated by deflating nominal data by the CPI. Capital gains and dividends are the difference between successive values on the S&P/TSX Composite Total Returns Index (including the value of the stock price index with dividends reinvested overtime).

*Source*: Total Returns Index from Datastream; Wages from IMF through Global Insight; CPI from Statistics Canada through Global Insight.

For Canadians TAIL has probably been the chief way in which globalization has manifested itself. With the paternalistic hand of government removed and other structural barriers to markets levelled, labour and capital were to face a new era of continental competition (Porter 1992). The overall process would ultimately be socially beneficial, so the reasoning went, because increased competition would induce firms to innovate, forcing them to invest in productivity-enhancing technologies which would eventually translate into higher wages. Greater competition would also bring with it lower prices, so Canadians would benefit as workers and consumers. Many, even those on the left, seemed to have been swept up by the rhetoric of heightened competition. As it sometimes is, agreement between contending parties – in this case the neoliberal right and nationalist left – is the opportune time to question the consensus and explore the roots of the prevailing wisdom. Has the TAIL era seen greater competition? And how can we know for sure, because competition, like other metaphysical categories, is not susceptible to direct empirical measurement?[11] As such, we can only know it through its effects. But what effects should we be looking for?

Nitzan and Bichler (2009: 50–1) draw on Michal Kalecki's conception of the 'degree of monopoly' as a quantitative proxy for economic power, the effect of which is disclosed in the profit markup. Kalecki (1943: 49–50) saw heightened concentration leading to the formation of giant corporations whose relative size meant they did not operate in perfectly competitive markets and were not price-takers. Rather, they could have an affect on overall market prices through practices like tacit agreement or other cartel-like behaviour (where a leading firm fixes prices which other firms follow). A major counteracting force to the degree of monopoly, Kalecki thought, was the strength of trade unions, whose relative bargaining position is improved when the ratio of profit margins to wages increases. Changes in the degree of monopoly have decisive importance for the distribution of income between workers and capitalists and so across society generally. The dual economy literature would also have us believe that the existence of large firms has the effect of reducing competition. Relative differences in firm size gives rise to different competitive behaviour, performance and market power (Bowring 1986).

If the TAIL era was to usher in heightened competition, this should have the effect of shrinking, not enlarging, the profit markup. Figure 4.7 portrays the profit markup for dominant capital and the corporate universe. In the decades leading up to TAIL, both series trend downward, indicating that competition was becoming more, not less, intense in the Canadian political economy. Recall Figures 4.3 and 4.5, which show that the largest firms were shrinking in relative size over this period. The profit markup falls all the way to the inception of the TAIL regime which, once again, acts as an inflection point. And just as Kalecki thought, there is a strong correlation between relative firm size (as indicated in Figures 4.3 and 4.5) and the degree of monopoly. He was also right to think that union strength plays a countervailing role to the degree of monopoly. As we will see in Figure 4.10, the pre-TAIL era saw increasing unionization,

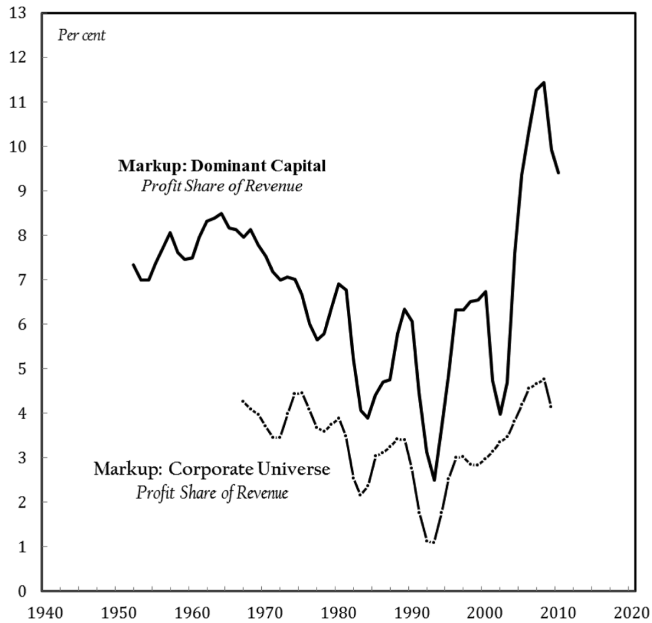


*Figure 4.7* Kalecki's 'degree of monopoly'.

*Note*: Profits are after tax. Series smoothed as 3-year moving averages.

*Source*: Compustat through WRDS for shares outstanding, closing share price, total revenue and net income; Canadian Financial Markets research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; IMF through Global Insight for total corporate profit; Cansim for total corporate revenue (Catalogue 61–207 and Tables 1800001–3).

while the TAIL era has seen significant de-unionization, leading to a heightened degree of monopoly.

In the previous section we saw that increasing income inequality across society is being driven by the re-establishment of the top percentile income share. During the 'golden age of controlled capitalism', roughly 1945–1980, the share of national income going to this group fell. Since the late 1980s, and especially in the TAIL era, we've seen the move towards a 'new gilded age', with the top percentile income share re-establishing itself to pre-war levels. But how does the top percentile income share relate to the distributional struggle between capital and labour?

Let's assume that it is the top percentile that owns and has effective control over the corporate sector. How does this group's income share relate to the struggle between owners (capital) and non-owners (workers)? Figure 4.8 plots the ratio of the corporate profit share of GDP to the wage share of GDP and the top percentile income share. The former captures the distributional struggle between capital and labour and the latter may be thought of as a proxy for the distributional power of the owners and managers of the corporate sector. What this


*Figure 4.8* Capital–labour redistribution and the top income share.

*Note*: Corporate profit is pre-tax. Series smoothed as 5-year moving averages.

*Source*: GDP, wages and salaries and corporate profit from Cansim (Table 3800016) and Historical Statistics of Canada (F1–13); Veall (2010) for top income share.

figure shows us is that workers made relative gains from the close of the Second World War to the NAFTA, when capital began to win decisively the distributional struggle. This trend corresponds, albeit imperfectly, with the pattern of the top percentile income share. Once again, the TAIL regime acts as a turning point in terms of distributional outcomes.

After having explored the distribution of income in the previous section and differential business performance in this section, the operative question becomes: is there a connection between the two? They may, of course, be related, but how close might the relation be? Figure 4.9 plots differential capitalization and the income share of the top percentile from 1960 to 2007. The two series move in tandem and appear as mirror images of each other. The one, differential capitalization, captures the differential power of capital while the other acts as a proxy for the distributional power of the richest one per cent. It is the latter category that is most likely to own and have effective control over dominant capital (and the corporate sector generally) so we should expect that the increasing differential power of capital flows to this group.


*Figure 4.9* Differential capitalization and the top percentile income share.

*Note*: Ratio of the average of the top 60 listed corporations ranked annually by market captilization and the average of all firms listed on the TSX. Total pre-tax market income, excluding capital gains.

*Source*: Compustat through WRDS for common shares outstanding, closing share price; TSX Review, e-Review and Factbook for total market capitalization and number of listed stocks; Veall (2010) for data on top percentile income share.

To recap, the distribution of income has become more unequal in the TAIL era and it is the surging gains made by the top percentile that appears to be the cause. On the other side of the ledger, the TAIL era has seen larger relative firm size, a rising profit share of national income, booming differential accumulation, rising returns to capital and an increase in the profit markup. The level and pattern of accumulation changes markedly with the inception of the TAIL regime along with the distribution of income. The major claim here is that these measurements (Figures 4.3–4.7) find their domestic analogue in Figures 4.1 and 4.2. That is to say, there is a quantitative correspondence between the rising inequality and concentrated income gains of the highest income earners, on the one hand, and the increasing differential power of capital, on the other. These quantitative facts require a qualitative explanation. Taking refuge in the 'invisible hand' or 'marginal productivity' just won't do, even if it is the dominant intellectual reflex. Thinking of these distributional changes as a reflection of the institutional reorganization of power might go some way towards our explanation.

## The institutional reorganization of power

How did TAIL reorganize power on the North American continent? The answer, which is meant to be suggestive rather than conclusive, will come in three parts. First, a new ‘bill of rights’ was created that further empowers capital. Second, labour has experienced large-scale de-unionization and so has been significantly weakened. And third, the TAIL regime acts as a ‘conditioning framework’ on all levels of government, restraining the activities they can undertake. It should be noted that in claiming that the institution of a TAIL regime had a large impact on these distributional outcomes it does not imply that it is the only factor at work. Plainly there are many other processes and policies that shape distributional outcomes, but as we’ve seen, the timing and magnitude of the changes correspond with the institution of TAIL, thus indicating its importance.

### *A new ‘bill of rights’ for capital*

The proliferation of trade agreements since the close of the Cold War have tended to be encompassing from the standpoint of investment, and CUFTA and NAFTA are no exception (the following discussion draws extensively on Shrybman 2007). These agreements include areas of law, public policy and government services that had previously been confined to the domestic sphere and rule upon such broad matters as investment, regulation, public services, procurement, intellectual property and environmental protection. International tribunals have been established that impose upon governments at all levels severe restraints, and threats of retaliatory trade sanctions or damage awards for ‘expropriated earnings’ are part of the ordinary mandate of these tribunals. One of the more striking features of these tribunals is the extremely broad definition given to ‘expropriation’. The conventional understanding centres on the confiscation of property, but the TAIL regime understands this term to include ‘covert or incidental interference with the use of property which has the effect of depriving the owner … of expected economic benefit of property’ (Supreme Court of British Columbia, quoted in Shrybman 2007: 303). In other words, it is not just actualized losses, but potential future losses that receive compensation.

The investment provisions of NAFTA empower capital to sue governments to enforce the exclusive rights the treaty accords them. In some cases these encompassing investor rights are not mirrored in domestic law and would be unenforceable in national courts. When a claim is made under Chapter 11 of the agreement it is determined by a secretive international tribunal operating wholly outside the framework of domestic law and without consideration of ordinary constitutional guarantees. This enables investors and corporations to constrain government policy and regulation by submitting damage claims for alleged ‘interference’ with their ‘rights’. By providing capital with these powers the TAIL regime marks a dramatic departure from the norms of international law in two ways. First, capital is given a broad range of rights even though it is not actually party to the contract and does not have any obligations under it. Historically, only states had access to the powerful dispute mechanisms of international trade law. Second, Chapter 11 provides capital with the right to bring into play private and secretive international commercial arbitration processes that rule upon important issues of public policy and law. In short, the deal enables capital to put any law, programme or policy of a NAFTA signator that it happens to oppose on trial, and those parts of civil society that might be affected by a NAFTA ruling are ignored. These legal-institutional changes constitute a reorganization of the framework of accumulation, further empowering capital. It should be noted that this power does not have to be utilized to be effective. The actual application of this power is infrequent and its direct connection to distribution is probably partial. That said, capital has acquired new legal possibilities which condition government policy, making the enactment of laws in its favour more probable.

### *De-unionization of labour*

Recall that the official purpose of eliminating tariffs and reducing other trade barriers was to free capital from narrow national constraints, thus enabling it to move to more productive sectors. The assumption was that more jobs will be generated in the productive sectors to absorb the losses of jobs in the unproductive sectors. But the institutionalization of a TAIL regime was about more than tariff reductions and the cross-border flow of commodities. The facilitation of capital mobility further empowers capital over labour, especially at the level of collective bargaining. The real threat is not just that capital will leave declining sectors and flow to more productive ones, but that it will leave the domestic economy altogether. This puts downward pressure on wages in the sectors most exposed to the threat of relocation by weakening the bargaining position of labour. The wage stagnation that we see in Table 4.1 and Figure 4.6 is closely tied to the enhancement of capital mobility. Increased competitive pressures help explain the very sharp decline in the unionization rate in Canadian manufacturing, which has fallen from 37 per cent in 1988 to 27 per cent in 2009. Figure 4.10 presents the relationship between union density and the total wage bill over the postwar era. The correlation is surprisingly tight given the breadth of the indicators, and it clearly shows that rising union density was coupled with a higher wage bill throughout the 'golden age'. The process reaches a peak in the mid-1970s before going into sharp decline in the TAIL era. With de-unionization the Canadian political economy has seen a smaller wage bill, heightened wage stagnation, thicker profit margins and an expanded profit share of national income.

It is important to note that the positive feedback loops make this a self-perpetuating trend. As more jobs are lost in unionized workplaces and as new workplaces are created that are not unionized, organized labour will be put in an even worse bargaining position, and so even those jobs that are not relocated will face wage compression. Union decline also implies that non-unionized sectors will be less able to bid wages up. So wage compression for unions implies wage compression for the entire labour market. Union decline is not a process rooted in 'nature', nor is it the inevitable outcome of shifts in technology. It is the

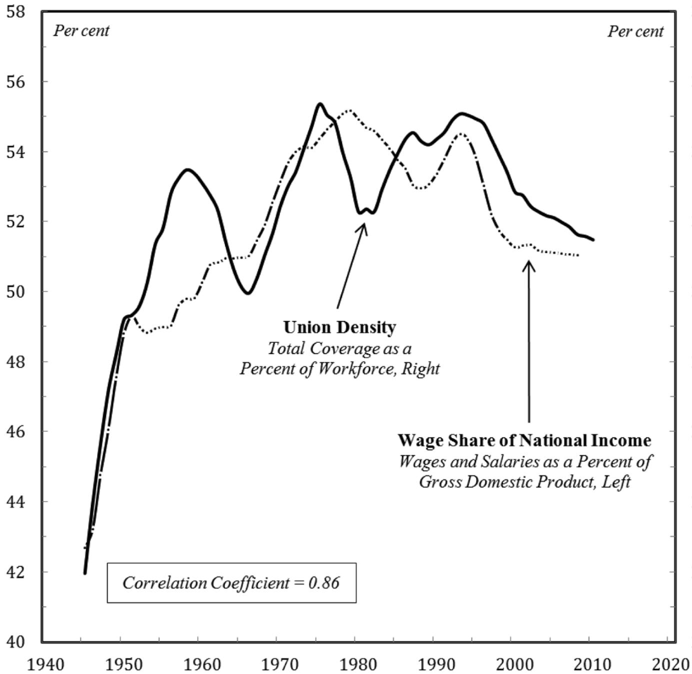


*Figure 4.10* Union density and the national wage bill in Canada.

*Note*: Coverage is for non-agricultural paid workers. Series smoothed as 5-year moving averages.

*Source*: Union Density from Historical Statistics of Cannada, E175–177 and Cansim Tables 2790026 and 2820078; Wage Share and GDP from HSC, F1–13 and Cansim Table 3800016.

product of (political) decisions made by human beings and these figures suggest that the disproportionate closures of unionized plants and the disproportionate concentration of new hiring in non-union plants have contributed to the distributional changes in earnings.

### *A new conditioning framework for governments*

TAIL serves as an institutional mechanism that effectively restricts the policy choices available to states. Ruling elites have used these international obligations to impose policies that would not otherwise acquire domestic approval and many of the institutional mechanisms are 'supraconstitutional' in function, meaning they are so broad in scope and have such unusual judicial authority that they are capable of transforming the domestic political order from the outside-in. The ability of these agreements to shape government behaviour even though they do not fall under the constitution has led some to claim that 'NAFTA tied the government's hands … a clear illustration of how international agreements can be used to constitutionalize a domestic ideological position' (Clarkson 2002: 51–2). The new right's capital acquired also makes it extremely difficult to bring public and social services back into the public sector once they have been privatized, thus giving practical significance to Thatcher's ideological acronym, TINA (there is no alternative). Not only is it extremely difficult to reverse some of the privatization and deregulation measures of previous neoliberal governments, it becomes very difficult to establish new social services. For instance, if Canadians ever wanted to expand their Medicare system to include home care or pharmacare they would almost surely have a fight on their hands, because investors could sue the Canadian government for expropriated earnings.

## Conclusion

It turns out that the popular discontent with the TAIL regime is well placed. Contrary to the received economic wisdom, the TAIL regime has brought enhanced prosperity for the few and income and wage stagnation for the many. The great philosopher of science, Imre Lakatos, reminds us that 'in scientific reasoning, theories are confronted with facts and one of the central conditions of scientific reasoning is that theories must be supported by facts' (1978: 2). The facts do not appear to support existing theories of TAIL and its connection with the level and distribution of income. Orthodox economics is compelled, then, to generate what Lakatos calls 'rescue hypotheses', namely an account of the failed prediction and rationale for why it should be thought of as an 'anomaly'. But we don't need to generate rescue hypotheses, much as science does not need 'sacred tenets', once we step into a new theoretical framework. Thinking of capital accumulation as a broad power process enables us to simultaneously explain the assimilation and deepening subordination of the state to capital via NAFTA and the dramatic distributional gains made by the highest income echelons. After 100 years of protectionism and economic nationalism, Canada's ruling elites, at the behest of dominant capital, inaugurated a TAIL regime. Twenty years into this regime has given us the perspective we need to evaluate this political–economic transformation. Much as we may dislike having to agree with that great Florentine political thinker, he thought deeply about power and perhaps had it right when he said:

> men are inclined to think that they cannot hold securely what they possess unless they get more at others' expense. Furthermore, those who have great possessions can bring about changes with greater effect and greater speed.
>
> (Machiavelli [1517] 2003: 118)

## Notes

1 I would like to thank Jonathan Nitzan for his support through all stages of the research and writing of this paper, Gil Skillman for his thorough criticism of an earlier draft and Isabel Sousa for her thoughtful recommendations.

2 In 1985 the Royal Commission on the Economic Union and Development Prospects for Canada (known as the Macdonald Commission) presented its report to the government of Canada. One of its key recommendations was that Canada should pursue a free trade agreement with the United States, a move the report referred to as a 'leap of faith'.

3 In 1989 the Canada–US Free Trade Agreement (CUFTA) came into effect. The agreement was strengthened and extended to include Mexico in 1994. The North American Free Trade Agreement (NAFTA) thence became the world's largest trading bloc.

4 In attacking the privileges and protections of the mercantilist system, and by anchoring an argument for free trade in cost competitiveness, Smith (1776) goes some way towards Ricardo's (1817) theory of comparative advantage. Two centuries later Milton and Rose Friedman can do no better than recycle the arguments Smith and Ricardo made without adding anything substantively new (Friedman and Friedman 1980: Chapter 2). This indicates that the strongest arguments for TAIL are still to be found in the works of Smith and Ricardo.

5 Nitzan and Bichler define dominant capital as the leading corporate-government coalitions (2009: 315). Their reasoning, I speculate, is that accumulation could not exist, and is shaped at every step, by institutions like government, the judiciary, the central bank and even the armed forces. I will break with their framework and use dominant capital as a category which only refers to the largest corporations.

6 Marx and Engels' [1845] (1998) concept of ideology has three main components: it depicts social arrangements as natural, rooted in extra-human forces; it justifies social arrangements by claiming that all members benefit; and the interests of the dominant class are passed off as the interests of all. The proponents of TAIL were almost certainly innocent of Marx and Engels' ideas, but it is always remarkable to see a centuries-old idea hold up so sturdily.

7 The Gini coefficient is commonly used as a measure of income inequality. It ranges from zero (perfectly equal distribution of income) to one (perfectly unequal distribution of income).

8 Piketty and Saez (2003) claim the trend towards greater income inequality is significant because it suggests that Simon Kuznets' (1955) influential hypothesis – that income inequality should demonstrate an inverse-U shape as societies modernize – can no longer account for the facts. Kuznet's theory, in short, suggests that in the early phases of economic growth, particularly the transition from pre-industrial to industrial society, incomes should show a tendency to diverge as urban industrial elites surge ahead of the rural agricultural population. The trend towards inequality is eventually offset, at least partially, by the rising wages of urban industrial workers. As migration from countryside to city intensifies so too should the tendency towards income equality intensify as more people enter high paying urban jobs. The trend, then, should be one of inequality first rising, eventually stabilizing and then falling, thus tending towards greater equality as modernization takes hold.

9 See Nitzan and Bichler 2009: Chapter 11 for a discussion of the 'elementary particles' of capitalization.

10 Figure 4.6 reproduces for Canada, with similar results, the US chart from a graduate course assignment offered by Jonathan Nitzan at York University.

11 I leave aside here basic neoclassical elements of competition, e.g., that there be a large number of sellers in a market (something which can be measured directly). This still stands as a proxy for competition proper, which is a metaphysical category in the Aristotelian sense that it is not directly accessible to sensory perception.

# 5 'A degree of control'

## Corporations and the struggle against South African apartheid

*D.T. Cochrane and Jeffrey Monaghan*

The Sullivan Principles[1] were an important and meaningful element among the amalgam of forces that comprised the international anti-apartheid movement. They were far from radical in the sense of constituting a significant challenge to capital or the corporation. However, they were radical in the extent to which they transformed the relationship between corporations and other social movement actors, including those hostile to the corporation itself. This is particularly stunning given that American corporations doing business in South Africa were precisely the target of North American anti-apartheid activists. They were targeted as 'local' entities that could be identified with the apartheid regime because of their overt business practices in South Africa. The response of the targeted corporations was not to: a) ignore the activists, b) launch a counter-marketing campaign, or c) try to discredit the movement. Instead, they formed a vocal alliance behind the well-respected figure of Dr. Rev. Leon Sullivan, a black religious leader who had been a visible personality of the civil rights movement and sat as a member of the GM board of directors.

US corporate signatories to the Principles were administered by the International Council for Equality of Opportunity Principles (ICEOP). Often cited as an original example of 'corporate social responsibility' (CSR) (see Paul 1989; Gray and Karp 1993; Seidman 2003; 2008), the Sullivan Principles allowed corporations to voluntarily sign-on to a code of conduct which aimed to regulate business in the apartheid regime. The Principles articulated requirements for signatories' continued presence in South Africa and rationalized as a tool for corporations to advocate reforms by the South African government. The principles became enmeshed within the anti-apartheid movement, and non-signatories were frequently targetted by North American solidarity efforts. Instead of dismissing self-laudatory claims as purely capitalist propaganda, our research asks how these corporations viewed their participation in and engagement with the anti-apartheid movement. Informed by the 'capital as power' theory of Nitzan and Bichler (2009; 2002), we examine the intra-capitalist dynamics that motivated and leveraged the actions of ICEOP and signatory corporations. In particular, we examine how corporate members participated in the anti-apartheid movement in order to control and influence its direction. This is particularly true of larger business interests operating in South Africa, a group including GM, Mobil and Ford, who took a leadership role in initiating and directing the Principles. As we will demonstrate, desired outcomes differed amongst corporate actors – particularly between large and small firms – who were nonetheless bound to work in relation to the shared Sullivan framework that operated under the leadership of dominant capital (see glossary).

In parallel with ICEOP participants are the social movement activists who were able to leverage the corporate participation to increase the visibility of the anti-apartheid movement, and eventually helped realize international sanctions against the South African apartheid regime. This amalgam of actors in North America contributed to the international solidarity movement against apartheid. Based on material from the ICEOP archive,[2] our research indicates that, contrary to either a) dismissal of CSR as mere marketing or a mechanism to suppress or demobilize social justice movements, or b) celebration of CSR as a positive means to align profit-making with legitimate social concern, the participation of the dominant corporations in the anti-apartheid movement involved a complex and conflictual effort to control transformative social processes in order to generate and protect what Nitzan and Bichler have called 'differential accumulation.'

The processes of interpretation and negotiation, as they played out in communications among the various actors, offer a revealing glimpse into how corporations cooperate and compete to varying degrees. From the perspective of social movements that target corporations, examination of these processes highlights how aporias emerge within a group that is seemingly operating according to a single set of shared desires. Throughout the entire history of the alliance, the Principles themselves constituted the pivot and remained a powerful object for Sullivan. They gave legitimacy to the entire project and, as they bore his name, he was uniquely able to shift their meaning through what he called 'amplifications'. Although the alliance continued in one form or another into the early 1990s, it became largely ineffectual following Sullivan's resignation in 1987. Despite the power of the corporate actors, the centrality of Sullivan and the ICEOP within North America's mobilizations against South African apartheid cannot be discounted. Through investigation of the archives of ICEOP, we have tried to translate how the different actors understood their roles, their relations to each other and their relation to the larger anti-apartheid movement that was a constant source of pressure.

The efforts of the Sullivan signatories aimed at channelling the transformative efforts of the anti-apartheid movement. Most importantly, they sought to block and divert social movements that demanded American firms divest their South African holdings. The Sullivan Principles were a vital component of this effort. The constructive efforts of the corporations, both to align themselves with Rev. Sullivan, and to implement the Principles, were necessarily conjoined to defensive moves to repair damage and alleviate pressure. ICEOP, and more so its partner organization, the Industry Support Unit (ISU), were used to monitor and respond to criticism of corporations doing business in apartheid South Africa. In the course of this chapter, we will examine the differential interests at work among the signatories to the Sullivan Principles and how they interacted with each other and other relevant actors in the struggle against South African apartheid. The purpose of this investigation is two-fold: 1) to examine practices within corporate coalitions with an eye towards their internal dynamics of struggle; 2) to examine how corporations respond to external challenges to their accumulation and the activities undertaken in pursuit of that accumulation. Ultimately, we hope to contribute to a greater understanding of how corporations operate individually and in coalitions. Such an understanding should help social movements when they either oppose corporations or hope to leverage corporate resources to achieve desired goals.

## Background: the sullivan principles and the anti-apartheid movement

International solidarity campaigns have consistently over-exaggerated their role in bringing down the white South African apartheid regime. None have misrepresented their contribution more than America's corporations (see Marzullo 1986). By 1987, when Rev. Sullivan withdrew his support of the Principles, more than 120 US corporations, including Ford, GM, Mobil and IBM, voiced their opposition to the apartheid regime and adherence to the Sullivan Principles. Contrary to their self-congratulatory renditions of history, these corporate actors joined a broad-based international campaign during its peak and, as will be discussed in detail, largely out of political–economic self-interest. By the mid-1970s, the brutality of the apartheid regime had become widely publicized and international solidarity movements routinely highlighted the complicit role of foreign corporations that did business in South Africa (Thorn 2009).[3]

In the United States, the roots of the anti-apartheid movement can be traced as far back as the mid-1940s and early 1950s, but gained significant momentum following the Sharpeville massacre in 1960 (Culverson 1999; Nesbitt 2004). When ICEOP was initiated in 1977, the anti-apartheid movement in the US had already established a solid grassroots base. It had also developed a mature analysis and, depending on particular groups across the political spectrum, possessed an array of political programmes and alternatives (Culverson 1999). The movement contained a number of actors that included church groups, labour and students organizations, black revolutionary groups, peace groups, etc. (Seidman 2003). In this sense the movement had a broad diversity of strategies for their solidarity campaigns. Perhaps the most prominent demands that were shared among these social movement participants were disinvestment and divestment, as these provided a localized focus – targeting American corporations – to a foreign-based struggle.[4]

In fact, Rev. Sullivan, at his first meeting of the GM board of directors, in 1971, argued for all multinational corporations, including GM, to withdraw from South Africa. He backed away from this demand in 1975, instead adopting a position of constructive US corporate involvement rather than outright divestment/withdrawal. Borrowing from the model Sullivan developed at the Opportunities Industrialization Centres of America (OICs, see Stewart 2011), ICEOP was funded by signatory corporations that pledged to adhere to its mission statement. As the umbrella organization for the Principles, ICEOP was divided between two primary organizational committees: the board of ICEOP, which included Rev. Sullivan and a number of other individuals associated with church activism; and the Industrial Support Unit (ISU), which contained a number of sub-committees comprised exclusively of corporate representatives. The ISU, which was, on the surface, the less significant structure of this corporate-driven and focused anti-apartheid organization, held organizational force through 1) financial means (control of budgets and bank accounts); 2) influence over ICEOP personnel, particularly executive director Dan Purnell. Nonetheless, the visibility of Rev. Sullivan, the utility of his participation, the force of his personality and the fact that it was his name on the Principles, ensured a certain tug-of-war between the ICEOP and ISU over the direction of the Principles.

Sullivan did not approach the Principles as a static agreement. From the original six principles, Rev. Sullivan – in a move contested by many of the signatories – offered a series of 'amplifications', that demanded ever greater effort on the part of signatories. Perhaps the most contentious of these increased demands came with the 'fourth amplification' that called for 'corporate civil disobedience'. The language of social movements made more than one signatory uncomfortable. For example, Nicolaus Bruns, Jr., Vice-President of International Minerals & Chemical Corporation, in a letter to Rev. Sullivan, noted that although his company opposed apartheid, they found his call for civil disobedience 'difficult' as 'IMC believes in working to change unjust laws but to disobey the law is another matter.'[5] In 1985, Sullivan publicly stated that if apartheid was not abolished within the next two years, he would declare the effort of constructive engagement a failure and would demand divestment. Keeping his word, in 1987 he broke from the organization bearing his name and, against the vocal criticisms of corporate America, once again publicly campaigned for divestment.[6]

Immediately upon the formation of the Principles, grassroots activists criticized the corporate-led initiative. They regarded the Principles as a 'sham' and critiqued them as a method to avoid legislated efforts for 'boycott, divestments, and sanctions' (BDS). Beginning in 1980, divestment movements forced dozens of states and counties to enact BDS-style legislation. The corporations tried, sometimes successfully, to have signatories to the Principles exempt from investment restrictions. The concerns of activists that viewed corporate participation in the movement with trepidation were largely correct as confirmed by an unnamed executive who attended the first meeting of the Sullivan Principles: 'There was a general feeling that the Statement of Principles would be helpful in avoiding U.S. legislation on this issue' (quoted in Sethi and Williams 2000: 10). While we generally agree with these critiques, we argue that in addition to de-mobilization strategies an important aspect of the corporate anti-apartheid efforts was the on-going process of intra-capitalist struggle that constitutes the general, constant and over-arching reality of accumulation. As such, it makes sense to consider the dominant participants in the Principles. The original signatories continued to wield control within the group and smaller, less powerful members, were largely left with no choice but to sign on. There was suspicion of the power wielded by the corporate originators. For example, in 1977, when Heublien Int'l (KFC) agreed to join the Principles, they wrote to Sullivan: 'I would assume the new group will be integrated with the original 12, rather than simply being asked to follow their leads and priorities.'[7] Agitation among the members continued throughout the existence of the group. Below we detail the intra-capitalist struggle as it played out in the context of the US anti-apartheid movement. First, we examine Nitzan and Bichler's conception of 'capital as power' and the role they accord to 'differential accumulation' (see glossary) in the day-to-day efforts of capitalists. As a theoretical framework, 'capital as power' challenges many of the fundamental features of political economy. This challenge and the theoretical and analytical tools offered by Nitzan and Bichler (2009; 2002) should benefit social movement theories that depend on – and seek to intervene within – systems of political–economic power. We believe their theory can help us parse out the complexities and disaggregated interests that motivate corporations, including in their responses to, and engagement with, social justice movements.

## Differential accumulation as a theoretical and analytical tool

The concept of 'differential accumulation' has been developed by Jonathan Nitzan and Shimshon Bichler over the last decade, most fully in their book *Capital as Power* (2009). In developing their theory of 'capital as power,' Nitzan and Bichler argue that capital is a strategic, power institution (2009: 9–10; 2002: 31). Contrary to the bottom-up production-based conceptions of capital and accumulation, Nitzan and Bichler hold that capital is 'finance, and *only finance*' (2009: 262, emphasis added). Understood as an institution of power, capital is a symbolic representation of complex assemblages of assets under the control of particular capitalist entities, including the means of production. Representation is on the basis of expected earnings discounted for risk.[8] Capitalization is the means by which capitalists account, literally, for every feature of the social order they believe bears on earnings, either negatively or positively. Nitzan and Bichler refer to it as 'the central institution and key logic' of the capitalist order (2009: 153). Informed by the quantitative representation of capital, owners manipulate the complex assemblages over which they have varying degrees of control in order to accumulate. Increased production is only one limited possible course of action. Specific activities such as lobbying or marketing, but also broader social realities such as racism or nationalism, can become a part of capital as they play a role in processes of accumulation.

According to Nitzan and Bichler, 'the accumulation of capital represents neither material wealth, nor a productive amalgamate of "dead labour", but rather the commodification of power.' In this sense, 'capitalised profit represents a claim not for a share of the output, but for a *share of control over the social process*' (2002: 36, emphasis in original). Capital is the translation of control over the diverse social processes – including labour and production – into a divisible, vendible quantitative representation while accumulation is the relative augmentation of that control. Given that power can only be understood as a relation between two entities, capitalists judge their accumulatory success in *relative* terms. In other words, they think *differentially*. This means the primary struggle of capitalism is the intra-capitalist struggle. As Nitzan and Bichler note, 'the very essence of differential accumulation is an intra-capitalist struggle simultaneously to restructure the pattern of social reproduction as well as the grid of power' (2002: 41). Every other facet of society becomes collateral damage, rewarded or punished as part of diverse accumulatory endeavours.

In addition to focusing on the observable financial quantities of capital accumulation, 'capital as power' denies any direct logical or empirical link between those quantities and underlying quantities of production. Instead, financial quantities emerge from an accounting for the qualities of the world. As noted above, Nitzan and Bichler argue that not just production but every aspect of society that may impact earnings will be discounted into capitalized value. Accumulation occurs through changes in multiple diverse qualities. Therefore, understanding the patterns of differential accumulation has no a priori explanatory cause. We cannot restrict our analysis to the realm of production. Instead, potentially any individual, any institution, *anyone or anything* could be the locus of change that results in differential accumulation.

The motives of the major corporations that participated in the Sullivan Principles must be analysed within this understanding of accumulation as a qualitatively diverse and redistributionary struggle. Our analysis remains in the tradition of critical political economy that recognizes accumulation as the purpose of corporate action. It certainly was not based on their opposition to apartheid on moral or ethical grounds, although the individuals who mediated the corporate interests as representatives within ICEOP/ISU may have held such an ethical position. From the 'capital as power' perspective we recognize 1) the diverse qualitative actions undertaken in the pursuit for accumulation, 2) the intra-capitalist struggle for redistribution that results in shifting alliances and rivalries, particularly the interests of dominant corporations to maintain their position of leadership and, 3) the complex relations that these actions produce with other members of society. Corporations certainly initiated the Sullivan Principles, in part, to curtail efforts at divestment and legislative sanctions that were being promoted by social movement actors. As a group, the accumulation of all the signatories were threatened. However that is not a complete understanding of corporate involvement in the Sullivan Principles or its relationship with the anti-apartheid movement. As data from the ICEOP/ISU archives demonstrates, there were cross-cutting differential interests at work.

## Corporate interest in S.A.: understanding the differential struggle

The credibility of the Sullivan Principles as a means to challenge apartheid was the central concern of ICEOP and the signatory corporations. The Principles had value. Their credibility served to divert calls for disinvestment, as well as calls for intervention by the US government. The aggregate benefits of credibility were used against outside challenges to the abilities of US corporations to accumulate in South Africa. However, credibility was also a focus of internal debate and contention as participants disagreed about the costs and means of achieving that credibility. Therefore, credibility can be considered a locus that delineates various boundaries in the inter-capitalist struggle. We will demonstrate first how the credibility of the group as a whole was used to protect corporate interests in South Africa as well as their broader interests in preventing a precedent in government intervention. Then, we will consider the differential interests among participants that were clearest in terms of the relative size of the corporations. These materials detail both the collective and individual interests that motivated corporate involvement in the Sullivan Principles.

### *Collective action*

The alliance of US corporations that signed onto the Principles was, at its largest scale, a homogeneous group. They shared in a desire to retain their control of South African assets and worked collectively to control the debate on the matter. Signatories engaged with elements of the broader US anti-apartheid movement, as well as governments at both the state and federal level, to argue against anti-apartheid activists who advocated divestment measures. Through the Principles and the monitoring of ICEOP the signatories hoped to achieve collective credibility for their arguments against withdrawal from South Africa.[9] This point was stated explicitly in one of the first letters to US corporations asking them to endorse the Sullivan Principles:

> Recent meetings with major institutional investors in companies and banks currently in South Africa by select collegues of Dr. Leon Sullivan, have made it emphatically clear that most of them believe massive, accelerated and credible performance by U.S. Multinationals in the Republic of South Africa, under the collective umbrella of the expanded 'six principles' initiated by Dr. Sullivan, is the only viable alternative, currently available, to meet the accellerating pressures on them for disinvestment.[10]

Although positioning themselves within the anti-apartheid struggle, Sullivan members occupied an antagonistic relationship to groups advocating disinvestment. Signatories uniformly denounced the practices of apartheid, however they sought to counter-act other social movement participants. To further this end, archival records include several explicit accounts of efforts at social movement demobilization.

### *Against divestment activists*

Signatory corporations took an active role in monitoring activist efforts and would pass along news stories and other sources of information.[11] For example, Bill Broderick of Ford passed onto Barbara Kommer of Hewlitt Packard a report prepared by a Massachusetts anti-apartheid group MassDivest. In another letter, Broderick notes, 'Patricia Perlman of Citibank has been particularly helpful in forwarding useful intelligence to me', which he then uses to 'alert others'.[12] Of particular concern were groups lobbying at the state and municipal level for disinvestment legislation. Influential chairman of the ISU and Mobil representative Sal Marzullo expressed concern that groups were often able to make their case to government before the companies were even aware the proposal was being made. Marzullo noted that he was able to acquire 'working papers' by disinvestment groups.[13] With their accumulated 'intelligence' signatories formulated collective responses, pushing back efforts by activists, and positioning the Sullivan Principles as a 'credible, defensible alternative' to divestment.[14]

Corporate representatives begrudgingly acknowledged that disinvestment activists were 'determined and well-organized'.[15] The report by MassDivest forwarded by Broderick included underlining of how many people were active in the group and the organizational flow they had adopted. Notes in the margins complimented their 'shrewd politics'. Elsewhere, Marzullo claimed that disinvestment groups were well-funded. He even went so far as to claim that the United Nations were funding the effort through money given to the African National Congress.[16] However, this just meant that the corporations had to increase their own efforts to prevent such legislation. Among the arguments they made to state representatives was that such disinvestment would be financially harmful. Broderick asked Kommer if the group could 'put together a convincing, well documented case, either statistical or logical or both, showing there would be real costs involved?'[17] Sullivan signatories jointly formulated responses that addressed the points being made by advocates of withdrawal (see 'A Strategy for Dealing with State Divestment Legislation'). Among the tactics was the use of ICEOP administrator Dan Purnell, who would meet with state representatives to argue against disinvestment legislation on behalf of signatory companies. Purnell's position in ICEOP and association with Rev. Sullivan commanded a sense of moral authority unavailable to corporate representatives. Eventually, the need for response was greater than Purnell alone could handle and efforts within ICEOP/ISU to distribute some of the work became a matter of contention, as will be discussed below. This increased difficulty came with growing efforts by disinvestment activists.

### *Against the IRRC*

One of the groups that tried to intervene in the disinvestment debate was the Investor Responsibility Resource Centre (IRRC). An early advocate of 'ethical investing' the IRRC described its role as researching and reporting on 'contemporary social and public policy issues and the impact of those issues on major corporations and institutional investors' (Propp and Myers 1979: 1). The organization had been researching and discussing the question of South African divestment as early as the mid-70s. It monitored on-going disinvestment initiatives as well as events in South Africa. In 1982, the IRRC received grant funding to do in-depth interviews with selected Sullivan Task Group Chairmen and ICEOP personnel to gauge 1) the spathe of pressure groups and organizations who question and probe the US corporate presence in South Africa; and 2) the resulting corporate reaction to such pressures. Following the interviews, signatory representatives met at Mobil's headquarters on October 7, 1982, to discuss their 'collective experience'. The meeting minutes reflect that, 'uniformly … the common experience had been less than favorable'. The group claimed the IRRC studies 'lacked perspective and objectivity'. Expressing a routine complaint about criticism against their presence in apartheid South Africa, signatories wished that 'credit be given where credit was due'. The signatories wished for their efforts to pay off. Despite many signatories advocating non-cooperation in future IRRC research, Marzullo recommended continued cooperation, but under certain conditions. Among the conditions was a requirement that prior to publication of a company profile, the company be allowed to review the profile. Faced with the possibility of a boycott, IRRC manager Terry Myers 'manfully bit the bullet and conceded to the principles and guidelines recommended to him by the company representatives'.[18]

Signatory companies feared that a non-cooperational relationship with the IRRC might elevate their level of scrutiny. By applying strict criteria to IRRC research, the signatories were able to maintain a relationship with potentially critical researchers. In the context of mounting pressure on US involvement in South Africa, maintaining the presentation of cooperation was important for Sullivan companies to deflect calls for disinvestment. The signatories wished for their status as adherents to the Sullivan Principles to serve as a hedge against disinvestment demands. The IRRC was a focus of that effort. They hoped to convince the research group that Sullivan signatories were making a positive difference in South Africa. However, this also required them to continually enroll new participants from among the non-signatories.

### *Against Non-signatories*

In order for the Principles to appear effective, advocates argued that they must be voluntary – as opposed to legislated – and should ideally include all US companies in South Africa. Marzullo was particularly adamant about continually increasing the number of signatories in order to give an appearance of effectiveness. 'I need not tell you Reid', he wrote to Reid Weedon, 'that for years now I have written and called every one of these companies [that are not signatories] and have received very irate letters or calls from some of them.'[19] Marzullo and other leading ISU members had long maintained that non-signatory companies threatened the legitimacy of the initiative. The annual reports prepared by auditing firm Arthur D. Little (ADL) included a list of all the American businesses in South Africa, as known by the American consulate. This list publicized those who had not signed on.

In order to make progress in obtaining new signatories, the American Chamber of Commerce in South Africa (AmCham) chaired a meeting of non-signatory companies in South Africa on August 25, 1983. The ISU dispatched National Sullivan Coordinator Roger Crawford, who was also a director with Johnson & Johnson, to the meeting. Advertised as a meeting to discuss the future impacts of potential divestment legislation in the US, Crawford explained that 'if non-signatory companies joined voluntarily then this would be a positive demonstration of goodwill on the part of the non-signatory companies'. Following the meeting, Crawford wrote to Marzullo that 'it was apparent … that a number of companies felt that their USA-based corporate headquarters were unaware of the political pressures and the need to consider signing up as a signatory'. Crawford attached a list of these companies, considered to be 'prime targets' to 'join the effort'.[20] The list comprised 21 companies, employing a total of 16,151. Most of the list consisted of lesser known firms with some notable exceptions such as Pepsi Cola, Estée Lauder, SC Johnson and Bechtel. The largest employers on the list included Lion Match Company (2,025), Carlton Paper (1,850), and Henred Fruehauf Trailers (1,400). Between their 1983 and 1984 reports, ICEOP only added 14 new or returning signatories, with four withdrawals and ten firms that failed to report.[21]

Marzullo noted that the task of enticing non-signatories to join was made difficult by confusion over which US companies are actually operating in South Africa. Even when US firms were known to have some interest in South Africa it was often the case that they held a minority share and lacked the authority to impose the policy changes required of signatories. Additionally, many of these operations were small, making some of the changes difficult if not impossible. Nonetheless, Marzullo insisted that 'we will exert all the pressures we can wherever we can'.[22]

Perhaps the greatest pressure came in the form of lobbying by members of the Reagan administration. In March of 1984, Secretary of State George Shultz met with 18 senior executives of signatory companies and 14 representatives of non-signatory companies He told the executives that 'many Americans believe some form of governmental action is required to address the issue of apartheid and to punish South Africa'.[23] He attributed this to '[m]isperception and frustration'. However, he claimed that because 'we are dealing with perception as well as reality … [w]e have to be seen doing a better job'. He advocated adoption of the Sullivan Principles as a means to put 'American firms in a strong moral position'. He followed up the meeting with personal appeals to non-signatory corporations to sign-on to the Sullivan Principles. Shultz insisted: 'A move by your firm now to subscribe to the Sullivan Code would be most helpful.'[24] This appeal came as the signatory companies realized that divestment groups had gained significant ground against Sullivan's corporate coalition. ISU meeting minutes from February 1985 describe the transformations and public opinion and how it had redistributed social power against them: 'The Sullivan Signatories used to be the leaders in moving public opinion. This is now changed – Congress and the pickets are pushing beyond what the Sullivan companies can control.' Aware of this shift and under pressure from the Reagan administration, more firms signed. In fact, 84 corporations joined or returned to the group, with only two withdrawals and five failures to report.[25] Among the new signatories was

S.C. Johnson & Son. In 1979, company CEO Samuel Johnson had insisted the company need not join the collective efforts as its own policies 'go beyond the intent and spirit of the Sullivan Principles'.[26] However, in October of 1985 he wrote to Purnell to express his willingness to financially support the Principles and work with other signatories.

## Divisions within the collective

While the collective action of the Sullivan signatories was an attempt to control American debate and action on apartheid, that control was not uniformly distributed among group members. Members disagreed on numerous tactics and strategies. For example, as noted above, ICEOP was regularly called on to defend the presence of American corporations in South Africa. This required Dan Purnell to attend numerous speaking events. At a Communications Task Group meeting on December 11, 1984, Marzullo warned members they were being 'inundated' with requests and complained that the speaking load on behalf of the companies had been predominantly carried out by himself, Purnell and Bill Broderick of Ford, 'with others pitching in only occasionally'.[27] However, against Marzullo's advice, meeting minutes reveal that the group decided that 'we aren't ready for this' and listed a number of objections including 'the very real risk of focussing activist/picketer attention on company of speaker, etc.' This reflected a very real division between those firms that wished to visibly engage on the issue of American corporations in apartheid South Africa and those that wished to remain largely invisible. This divide was rooted primarily in size with larger firms more engaged, devoting more money, personnel and time to the matter. On the matter of the suggested speaker's bureau, Marzullo eventually prevailed over the objection of primarily smaller firms.[28] Task Group chairmen, such as Ned Brandt of Dow Chemical, were invariably representatives from larger firms. Where issues lacked support or consensus among broader Principles membership – such as the Speaker's Bureau, these men leveraged their companies' relative largesse in efforts to support the wishes of the ISU leadership. These efforts appeared to take place behind-the-scenes, however the influence of the larger companies were not lost on smaller signatories. Conflicts arising between larger and smaller signatories appear most clearly in debates about the cost and results of the questionnaire used to grade Sullivan signatories.

### *Divisions on cost*

In addition to taking active roles in the ISU and various Task Groups, larger corporations devoted substantial amounts of staff hours and resources to Sullivan-related matters. Among the more onerous tasks required of signatory companies were the quarterly questionnaires. Administered by an 'independent' auditing firm ADL, the questionnaire was used as the exclusive basis for classifying activities of US corporations in South Africa. However, smaller companies frequently complained about these requirements. A.W. Calder, President and

CEO of Joy Manufacturing, wrote to Sullivan that, although he agrees with the Principles, 'I have just reached the end of my personal rope on asking our people [to] fill out innumerable forms.'[29] Johnson Controls similarly objected: 'I received a lengthy questionnaire of some thirty pages, which requested far more information than was available or justified.'[30] William Roth, CEO of Trane Air Conditioning, wrote to Sullivan, stressing that he supports the objectives of the Principles while adding, 'I must express my disappointment with the growing bureaucratic approach that is being taken in this regard. The complex and detailed questionnaire requirements are a distraction from the business.'[31] Loctite Corporation Chairman Robert Krieble complained that the fees demanded were excessive for the service offered by ICEOP. He wrote to ADL's Sullivan contact person, their Vice-President Reid Weedon, that his company had no choice but to participate because 'the consequence of a signatory's refusal is to be blackmailed by various government employee pension trusts and other investment groups who thereby refuse to hold your stock.'[32] Small companies complained of interference with business practices, expressed concerns over disclosure of sensitive business information, and felt that costs were excessive. Many stressed the recession in South Africa that hurt their bottom line and made the costs even more onerous. On financial grounds some firms refused to pay their fees. For example, American Cyanamid Co. refused to pay their full membership fee of $7,000, instead only paying $3,000 on the grounds that they objected to paying for US-based staff.[33] In response to these refusals, it was decided that those who did not pay their fees would not be assessed and the delinquency noted in the yearly reports.

Although Marzullo argued for the importance of maintaining a credible system of oversight to ensure the integrity of the Principles he also acknowledged that both the fees and the time required of signatories was harder on some members than others. In fact, on behalf of Mobil, he registered a complaint with Reid Weedon over the requirement that a progress report had to be completed for each subsidiary with more than 50 employees.[34] Moreover, as the Chairman of the ISU, Marzullo became the means by which the complaints issued by smaller signatories were considered by the central figures of the Principles. He acted as mediator between the companies, Sullivan and ICEOP, as well as ADL. In September, 1982, Marzullo wrote to Purnell and Weedon to advocate the creation of a 'hardship class', where companies could temporarily avoid fees and questionnaire responsibilities. He wrote that, 'as soon as their financial and manpower profile permitted, they would perform as regular-assessed signatories, and fulfill their annual reporting responsibilities'.[35] Marzullo recommended 'a broadening of the "endorser" classification' to permit such companies to continue 'as signatories and relieve them, for the time being, of the responsibility of the annual questionnaire'.[36] Sullivan, on the other hand, had no sympathy for those who claimed the time and fees demanded of signatories was an excessive burden. In response to a complaint from Millipore Corporation, he noted that the demands of the Principles to improve the social situation for Blacks in South Africa 'is much more encompassing than simply paying an assessment fee … and completing a short-form report'. He commended the company for its decision to withdraw from South Africa if it was unable to meet these requirements.[37]

### *Divisions on results*

Sullivan's response to Millipore reflected his desire that the Principles not devolve into merely a public relations effort. The purpose of the Principles and its progressive 'amplifications' was to continually push the companies to do more. The Principles established standards to which the companies had to adhere in order to achieve the highest category: 'Making Good Progress'. Companies, on the other hand, complained that they were not getting appropriate credit for their efforts and they disputed the methodologies of the ADL reports. Complaints in this regard are almost exclusively related to the receipt of poor – or poorer than expected – ratings. For example, Goodyear Tire and Rubber Company objected to ADL's 'flawed' auditing methods. Company Chairman Robert Mercer, in a letter to ADL, declared the auditing system 'nonsense' and offered to show them 'how to design a system that will be meaningful and will restore credibility to the Sullivan ratings'.[38] International Minerals and Chemical Corporation complained about the use of a bell curve by ADL, concluding: 'We are concerned that the ratings system has been prostituted and has lost its sense of purpose.'[39] Marzullo replied, however, that a grading system was important to distinguish between companies that were advancing the Principles and those that were not. In a series of letters with William Sutton, assistant VP of Kodak Film, Marzullo writes, 'it is really necessary to establish a mechanism to separate the wheat from the chaff or those of us who are working very hard to achieve all the Sullivan objectives will suffer a credibility gab created by those companies that are just hanging on to Dr Sullivan's coattails'. Although Marzullo frequently advocated for smaller firms in an effort to maintain the coalition, his purpose was to protect the credibility of the group, which benefitted from both a large membership and a perception of legitimacy for the Principles and the grading system.

Firms were justifiably concerned about the impacts of poor ratings in the ADL reports. The impact of a poor grade was serious. International Minerals complained that 'universities, church groups and other activists … view the ratings as a barometer of anti-apartheid activity'. This would result in the company being targeted by activists and the subject of disinvestment demands. When complaints regarding the ADL questionnaire arose, Marzullo worked to assuage the complainant, which resulted in very few companies leaving the Principles. Marzullo's willingness to diffuse complaints from small companies regarding costs reveals the centrality of ADL's reports as a source of legitimacy for the Sullivan Principles. From the establishment of the Principles, Sullivan viewed independent monitoring practices as absolutely necessary in order for the initiative to be taken seriously by other anti-apartheid groups and the public in general. However, since the reporting system was based almost entirely on self-reporting from US corporations many anti-apartheid groups were understandably skeptical of the participation of US firms, especially 'since Sullivan was not able to institute an on-site monitoring program' (Stewart 2011: 65). Stewart details that Sullivan was never able to acquire external funding to establish such an on-site monitoring system and 'the ISU's funders refused to support this activity' (2011: 75). The result was a fragile system of self-reporting, where the credibility of the Principles hinged entirely on the 'independence' of ADL as the sole auditor of the questionnaire.

Although divisions amongst signatory companies arose over the course of the Sullivan Principles, these divisions remained largely sub-surface. Sullivan and the leadership of the ISU would receive occasional letters of complaint or grievances. Aside from divisions over costs and classification results, some companies felt coerced by, and/or objected to, the activist agenda of the Principles (or Sullivan in particular). These divisions were most evident with the announcement of the Fourth Amplification of the Principles, which included a call for 'corporate civil disobedience'. Among the companies that specifically refused to adhere to this call were Loctite Corp. and International Minerals & Chemical Corp.[40] Similarly objecting to the political objectives of the Sullivan Principles, the management of Ingersoll-Rand vigorously opposed the idea that multinational corporations 'interfere in the internal affairs of other nations'. On these grounds, Ingersoll-Rand twice defeated shareholder motions to adopt the Principles (1983, 1984). Nonetheless, Holmes wrote on behalf of Ingersoll-Rand no less than 11 months later to tell Sullivan that they would sign the Principles. Holmes' about-face took place at the point when the Sullivan Principles, aided by the Reagan administration, became a requisite for US corporations. As a response to the mounting violence from the apartheid government and calls for disinvestment, the Principles emerged as the only available 'voluntary' option for US corporations seeking to remain in South Africa.

## Constructing control and the differential struggle

As Nitzan and Bichler note, capitalism is not simply a self-operating order. It involves the 'ongoing imposition of power and therefore the dynamic transformation of society' (2009: 312). In affecting social transformations, the primary logic of capitalism is accumulation. However, in order to accumulate and increase capitalization in relation to one's competition, corporate managers have to exact control over the agents that operate within the realm of its interest. For example, Ford must consider government safety regulation, consumer tastes and prevailing style trends, competitors' efforts and innovations, activist demands, strategic access to resources, technological innovations in production, transportation, communication and elsewhere, as well as much, much more. It is worth noting that, contrary to the naïve conception of the all-powerful corporation, 'control' is tentative and requires constant and diligent maintenance and extension. The signatories to the Sullivan principles devoted a significant amount of resources to sustain the initiative. Their contribution of resources came through fees, as well as the assignment of employees to work on various committees, although the cost was a constant complaint of the signatories. Nonetheless, it remains the case that those who signed on and paid their fees believed they gained greater value in terms of maintaining or augmenting their power. Moreover, South Africa's geopolitical importance meant that divestment would impact the power of leading corporations in the determination of US foreign policy (see Mokoena *et al.* 1993). Forced divestment would not only immediately diminish their social control, it would also set a bad precedent that could put other assets at risk.

When the Sullivan Principles were first proposed, many of the leading corporations that initially supported the coalition were cognizant of its importance in combating calls for divestment. Nitzan and Bichler explain: 'Power means the ability to impose order, and imposition presupposes resistance – resistance from those on whom order is imposed and from others who wish to impose their own' (2009: 305). When the resistance comes from external social movements, as long as it does not threaten the existence of capital itself, that is the juridical and psychic legitimacy of quantified, vendible private property, dominant corporations can work to siphon movements into channels of their making and in service to their desires.

This logic of control is expressed with particular clarity in a June 2, 1980, letter from T.A. Murphy, Chairman of GM, to Frank T. Carey, Chairman of IBM. The letter, in its entirety, reads:

> Dear Frank:
>
> Following up on our conversation the other evening in Washington, attached are draft copies of the letters which David Rockefeller and I have agreed to sign seeking support from the Sullivan signatory companies for the Industry Support Unit. I would hope that you would consider signing the letters with us in order to *maintain some degree of control over the direction of this initiative*.
>
> As you know, the only alternative we have to Rev. Sullivan's efforts at monitoring is the continued and even expanded involvement of Arthur D. Little, Inc. which is to be paid for through signatory company support of the Industry Support Unit (ISU). I should emphasize that the ISU was established at our initiative and *designed specifically to keep the control of the funding* of this aspect of the Sullivan initiative in the hands of the companies. None of the funds provided the ISU can be expended without the expressed consent of the companies on the ISU Board.
>
> I share all the concerns you voiced during our discussion and I would hope that we could arrange for a meeting with Rev. Sullivan at which we could point out these concerns directly to him. Because I understand that you are not going to Miami for the OIC [Opportunities Industrialization Centres] Convocation, it appears we probably cannot set up such a meeting in the near future. We should pursue scheduling a meeting but in the meantime, since the funding of the ISU is so important to maintaining the Principles initiative from which we have all gained, and *to keep some control*

> *over the initiative* we would like to have you join David [Rockefeller] and me in signing the attached letters.
>
> [emphases added]

The letter referenced above was sent to both contributing and non-contributing signatory companies. It was an appeal for additional funding for the ISU to help it continue its 'constructive' efforts in South Africa as a means of bypassing calls for withdrawal and sanctions.

The funding to which Murphy refers was to pay ADL, which formed the basis of 'credibility' for the Sullivan Principles. This credibility was an aggregate benefit for the corporate interests in general. However, the control that Murphy describes is not just against the outside interests advocating full divestment. Rather, it is control by the dominant corporations against alternative strategies that may be preferred by less significant members of capital. They also wished to distribute the cost of maintaining ICEOP and the ISU to all the participants, big and small. At the same time as corporations sought to divert activist calls for disinvestment and divestment, dominant capital – of which T.A. Murphy and Frank T. Carey, as the CEOs of GM and IBM, and David Rockefeller, as Chairman of Chase Manhattan Bank and founder of the Trilateral Commission, must surely be a part – regarded the movement as a means to redistribute control among the corporations that were entangled in South Africa and the anti-apartheid movement. In the process they managed to leverage the legitimacy of the movement not only to divert criticism of capitalism as unethical and anti-social, but to ensure that they would have the institutional position to influence the direction of future events.

## Conclusion(s)

Standard political economic treatments of corporate behaviour tend to either a) treat price competition as the dominant mechanism by which corporations interact in the marketplace, or b) consider corporations in the aggregate, conflating corporate behaviour with 'the interest of capital'. The 'capital as power' perspective assists to eliminate any possibility of quantitative reduction and demands a differential view of complex corporate interaction. Political economic analysis must focus on these 'capitals in particular', not to locate exemplars that define 'capital in general', but to identify qualitative processes that explain accumulation and which may spread throughout 'capital in general', or at least among empirically defined groups. In fact, even capital as quantified power has such a historical trajectory. Identifying these complexities will also allow us to locate certain definitive features either temporally and/or spatially. For example, where and when has industrialism been indispensable to accumulation? Does the industrialism of nineteenth century Britain have the same relationship to accumulation as that of Guandong Province in twenty-first century China? Disaggregated historical analysis will allow us to delineate the boundaries of the particular corporate coalitions that make-up 'dominant capital'. Then, the qualitative processes of change, including shifting cooperation and conflict, that make-up the accumulatory struggle can be charted as corporate coalitions converge and diverge.

For participants in social movements these boundaries and lines of conflict can be considered weak anchorage points that loosely tie together individual elements and can be potentially exploited to achieve desired social change. Although this chapter has focused on the corporate interests in a particular evolution to the North American anti-apartheid movement, it needs to be remembered that this evolution was not one-sided. Instead, it emerged in response to a powerful and growing social justice movement that demanded and received concessions. The social changes both in the US and South Africa to which the anti-apartheid movement contributed constituted a co-creation among the various participants. Although the Sullivan Principles were hardly revolutionary, they likely improved the lives of black employees working for these corporations in South Africa. The anti-apartheid movement can take credit for this change, while keeping cognizant of the limits of the victory.

The argument can certainly be made that changes affected by the Sullivan Principles were ‘reformist’, in that they did not constitute a systematic challenge to capitalism. However, any honest revolutionary movement recognizes that we are nowhere near challenging capitalism. Such a challenge would have to involve undermining the juridical and psychic legitimacy of quantified, vendible private property. While such challenges are important, they are not all-or-nothing struggles. Those who advocate revolutionary struggle will frequently identify reformatory tendencies, and capitalism’s capacity to absorb the social changes fought for, as evidence that the movement or its goals are co-opted. However, as the ‘capital as power’ perspective makes clear, the differential interests of capitalists are a vital reality of capitalism, and everything short of undermining the institution of capital itself will be of differential benefit to someone. Therefore, we can stop lamenting this result and embrace the small gains through broad-based mass movements. In the realities of struggle, these gains are notable ameliorations in the immediate day-to-day experience of life under capitalism. Although this change might not directly undermine capitalism, it does improve people’s lives and demonstrates the capacity of outsiders to intervene in the accumulatory process.

## Appendix 1

### Statement of Principles of U.S. Firms With Affiliates in the Republic of South Africa

Each of the firms endorsing the Statement of Principles have affiliates in the Republic of South Africa and support the following operating principles:

1. Non-segregation of the races in all eating, comfort and work facilities.
2. Equal and fair employment practices for all employees.
3. Equal pay for all employees doing equal or comparable work for the same period of time.
4. Initiation of and development of training programs that will prepare, in substantial numbers, Blacks and other non-whites for supervisory, administrative, clerical and technical jobs.
5. Increasing the number of Blacks and other non-whites in management and supervisory positions.
6. Improving the quality of employees' lives outside the work environment in such areas as housing, transportation, schooling, recreation and health facilities.

We agree to further implement these principles. Where implementation requires a modification of existing South African working conditions, we will seek such modification through appropriate channels.
We believe that the implementation of the foregoing principles is consistent with respect for human dignity and will contribute greatly to the general economic welfare of all the people of the Republic of South Africa.

## Notes

1 See Appendix 1 for the original six principles.
2 The ICEOP archive is housed within the Urban Archive at Temple University, in Philadelphia, USA. Our research at the ICEOP archive was conducted between July 5 and July 10, 2009. All correspondence, minutes and ICEOP materials cited in this paper are contained within the archives, boxes 1–7.
3 Hakan Thorn argues that international solidarity campaigns of boycotts, sanction and divestment that comprised the anti-apartheid movement led to the emergence of an active global civil society, laying the framework for contemporary global justice movements.
4 Although the two terms were frequently used interchangeably, 'disinvestment' properly refers to shareholders selling their shares of targeted corporations while 'divestment' refers to corporations selling their assets. The two are obviously related as 'disinvestment' was considered a means to provoke corporations to 'divest'. Further, when we accept that capital is finance, and only finance, whether an asset is a bond or a factory is not necessarily important.

5 Nicolaus Bruns, Jr., International Minerals & Chemical Corp. to Sullivan, June 3, 1986.
6 Archival documents reveal that, despite his public encouragement of corporate engagement, Sullivan never abandoned his opinions favouring divestment. This is most evident by examining his ‘bank campaign’ which began in 1981. The bank campaign targeted America’s largest lenders, demanding that they block loans and divest assets from South Africa. On more than one occasion, bank officials complained to Sullivan of a double standard regarding his position on ‘constructive’ corporate involvement and the divestment campaign targeting banks.
7 Hicks B. Waldron to Sullivan, June 9, 1977.
8 The capitalization formula is the organizing principle of the capitalist symbolic order (see Nitzan and Bichler 2009: 153–4).
9 See Reid Weedon, ADL to Marzullo, June 20, 1979.
10 Harold Sims, Sims & Associates Consultants, form letter, July 1, 1979.
11 See Bill Broderick, Ford to Barbara M. Kommer, Hewlett-Packard, May 6, 1983; Broderick to Judith E. Alnes, Control Data Corporation, April 28, 1983.
12 Broderick to Alnes, April 28, 1983.
13 Meeting minutes, Task Group 7, March 8, 1983.
14 Broderick to Robert Anderson, Deere & Company, March 4, 1983.
15 Broderick to Kommer, May 6, 1983.
16 Meeting minutes, Sullivan Task Group 7, March 8, 1983.
17 Broderick to Kommer, May 6, 1983.
18 Report by R.L. Phillips, Secretary reporting for Marzullo, to all meeting participants, October 7, 1982.
19 Marzullo to Weedon, May 31, 1983.
20 Roger Crawford, Johnson & Johnson to Marzullo, August 29, 1983.
21 A total of seven withdrew, however, one firm merged with another signatory and two sold their South Africa operations.
22 Marzullo to Derek Fitton, Otis Elevator Company, May 31, 1983.
23 Secretary of State George P. Shultz’s Remarks on the Role of US Business in South Africa.
24 See Shultz to Ralph E. Ward, Chesebrough-Pond’s Inc., March 5, 1985.
25 Twenty of the new signatories joined too late to be part of the reporting process.
26 Samuel Johnson, S.C. Johnson & Son to Sullivan, September 5, 1979.
27 Meeting Minutes, Task Group II (Communications), December 11, 1984.
28 Ned Brandt, Dow Chemicals to Marzullo, April 24, 1985.
29 Calder to Sullivan on March 26, 1979.
30 Fred Bengel, President Johnson Controls, to Sullivan, August 22, 1979.
31 William Roth, CEO Trane Air Conditioning, to Sullivan, March 1, 1979.
32 Robert Krieble, Loctite Corporation to Weedon, May 15, 1985.
33 F.W. Bloecher, Director, American Cyanamid Co. to Sullivan, March 4, 1982.
34 Weedon to Marzullo, June 20, 1979.
35 Marzullo to Purnell and Weedon, September 2, 1982.
36 Marzullo to Purnell and Weedon, September 2, 1982.
37 Sullivan to Geoffrey Nunes, Millipore Corporation, May 6, 1986.
38 Robert Mercer, Goodyear Tire & Rubber Company to Charles LaMantia, ADL, February 5, 1987.
39 Nicolaus Bruns, Jr., International Minerals & Chemical Corp. to Susan Pendleton, ADL, February 3, 1984.
40 Ken Butterworth, Loctite Corp. to Sullivan, May 19, 1986; Nicolaus Bruns, Jr., International Minerals & Chemical Corp. to Sullivan, June 3, 1986.

# Part III

# The provocation of critique

# 6 Fighting the power?

## Struggle and resistance in *Capital as Power*

*Dan Bousfield*

> So, when a critical Marxist encounters a bourgeois subject immersed in commodity fetishism, the Marxist's reproach to him is not 'A commodity may seem to you a magical object endowed with special powers, but really it is just a reified expression of relations between people'; the Marxist's actual reproach is, rather, 'You may think that the commodity appears to you as a simple embodiment of social relations … but this is not how things really seem to you – in your social reality, by means of your participation in social exchange, you bear witness to the uncanny fact that a commodity really appears to you as a magical object endowed with special powers…
>
> (Žižek 2001: 83–4)

This chapter explores the relationship between capitalism, belief and the ways in which ideology reinforces contemporary capitalist practices. Like the Žižek quote above, the animating question of this chapter is how is it possible to maintain an anti-capitalist position in a world dominated and supported by the processes of capitalism? This question is similar to that proposed by Nitzan and Bichler's *Capital as Power* (2009) as they expose how the inability to develop an adequate definition of the power of capital impedes our understanding of the contemporary capitalist system. The pervasiveness of capitalist social relations necessitates an examination of the core assumption of the system, namely that capital exists, but we must examine this assumption if we are to begin to challenge the role of capitalism in our lives. This chapter draws on the insights of Nitzan and Bichler's interrogation of the problem of 'capital' in order to come to terms with the ways in which capitalism is dependent on the practices and beliefs which grant capital 'value' even if the definition of capital is contested, flawed or incomplete. As Nitzan and Bichler outline, even if we accept the neoclassical assertion that capital is an input in the production process or the Marxist notion that capital is the social exploitation of labour power, this does little to explain the dynamics of capitalism in the contemporary system nor, I argue, does it help us to understand the role of anti-capitalist or non-capitalist forms of resistance in the world. The reading of *Capital as Power* proposed here emphasizes Nitzan and Bichler's argument that the value of capital needs to be explained as an *outcome of social struggle* where the expectation of future profitability and the struggle over the reshaping of societal reproduction determines the value (and therefore quantity) of capital today. Contemporary capitalism is the systematization of social struggle into arrangements that are most beneficial for accumulation under the modern corporation.

The reading of Nitzan and Bichler's analysis produces three central arguments proposed in this chapter: the first being that the system continues to function quite well despite the fact that the thing at its centre remains a relative mystery, a problem dismissed as functionally irrelevant within the discipline of Economics, marginalized under the guise of the 'Cambridge controversy' or side-stepped through meta-models which obfuscate the problem (80–1). The second argument proposed here is that, if we slip into understandings of capital that treat it as an object beyond the condensation of broader social struggle, we potentially forfeit the ability to challenge capitalism directly, relegating its status to a backdrop of political resistance. While Nitzan and Bichler are clear that their approach cannot provide a 'general theory of society', they inevitably rely on their definition of capital to understand the way in which humanist notions of 'originality and creativity' explain resistance within capital's scope (19–20). The importance of broad social struggle to the definition of capital was explained in Marx's concept of 'primitive accumulation', or the idea that the transformation of non-capitalist societies into capitalist ones requires a tremendous expenditure of social, cultural and political resources, a struggle that is constant and ongoing. Understanding the role of struggle in the processes of accumulation is of central importance in developing anti-capitalist alternatives to the capitalist system. Finally, the importance of struggle foregrounds the role of belief in capitalism as a central problem, which can be seen in the way in which individual practices sustain capital's power through social interactions, be it the investment strategies of financiers or the common consumption of corporate products. Contemporary manifestations of anti-capitalism, such as the Occupy Wall Street (OWS) movement are derided for this 'effective' belief, as their social practices continually perpetuate the strength of their targets (i.e. bringing Starbucks coffee to a protest, blogging about an occupation on a Mac computer, making OWS into a consumable brand). The personalization of the processes of accumulation are integral to both capitalist and social order, though Nitzan and Bichler claim social order forms the 'human magma' beyond the perspective of *Capital as Power* (2009: 20). The contention of this chapter is that by 'resocializing' *Capital as Power* we can begin to see its significance for directly addressing the role of belief and resistance under the logic of differential accumulation – a process of intra-capitalist struggle.

*Capital as Power* sets out to historicize the dualism of politics and economics; their cursory rejection of 'socialized' forms of criticism of capitalism assumes a disinterest in the problem of the internationalization of capital, one that was of primary concern of Marx himself (54). Marx's interest in the 'magic and necromancy' of social relations that supported the emergence of commodity fetishism are of particular importance to understanding the central importance of the 'objectivity' of capital in social terms. The processes of 'primitive accumulation' perhaps best represents Marx's underdeveloped efforts to deal with the translation of capital from one social context to another, making power a central component of global political–economic interactions. Marx's insights into the commodity form are of particular relevance to how we can examine capitalism as an inter-sovereign (or inter-national) expansion of the commodity-form (through imperialism and colonialism), even if we agree with Nitzan and Bichler's challenges to Marx's definition of capital. Thus while Marx recognized the social character of capital's value (in the difference between use value and exchange value) Nitzan and Bichler develop an approach which recognizes the social contingency of capital itself, one that politicizes the antagonistic kernel at the core of capital as a system of power. In other words, while Nitzan and Bichler rightly criticize Marxist efforts to escape these problems with a qualitative theory of value (121) this does little to explain the ways in which inter-national social struggle is both central to, and yet barely explored in their theory of capital as power. On the one hand, Nitzan and Bichler's articulation of 'capital as power' specifies the importance of the separation of ownership and business from the processes of production, and the relinking of control through the rise of the modern corporation and the titans of business that dominate these processes (221). Echoing Veblen, Nitzan and Bichler's work considers accumulation from the perspective of a modern corporate capitalist, and seeks to explain the processes of the capitalist system from the perspective of 'absentee owners' and institutional investors. On the other hand, their explicit admission of the limited ability of their approach to explain the ways in which non-capitalist interests also help to participate and manipulate value is largely dependent on the deployment of uncritically adopted literary metaphors (such as holograms, mega-machines, cosmology) rather than the particular processes of struggle that would foreground the importance of different visions of social order. The politicization and struggle inherent in their theory of capital as power is not translated into the explicit struggle that Marx saw in the processes of 'primitive accumulation'. Moreover, as both Shilliam (2004) and Di Muzio (2007) have argued, the ongoing practices of primitive accumulation speak to the way in which social forces remain integral to capitalist power in terms of both profitability and considerations of geostrategic power. The concept of differential accumulation (see glossary) foregrounds the social contingency of winners and losers under the modern corporation, an understanding that struggle is central rather than peripheral to power.

## Differential accumulation

The importance of developing accounts that address the role of social struggle in the global political economy stems from the recognition of the socially contested character of contemporary capitalism. Rebuking neoclassical and Marxist definitions of capital, Nitzan and Bichler argue that the ultimate goal of the 'absentee owner' is not simple profit maximization, but rather profits that 'beat the average', a relative form of accumulation that recognizes the role of social and political control in the processes of production (246). This distinction marks a separation between the interests of business and the interests of production more generally. As Nitzan and Bichler explain:

> According to Veblen, business differs from industry in both methods and goals. Business enterprise means investment for profit. It proceeds through purchase and sale towards the ulterior end of accumulated pecuniary wealth. While industry is carried by the 'instinct of workmanship', business is a matter of ownership and power; whereas the former requires integration, cooperation and planning throughout society, the latter spells conflict and antagonism among owners and between owners and the underlying population.
>
> (220)

The assumptions of cooperation in the realm of the social stand opposed to the competitive and antagonistic vision of owners and recipient populations. If we accept the apolitical and domestic vision of the social realm (which is historically and theoretically narrow), *Capital as Power* sees the accumulation of profit (or the claim on future earnings) as the primary concern in any specific regime of production or configuration of labour practices. From this perspective, capital is a systemic and measurable representation of the relative ability to control future profitability. For the absentee owner, differential accumulation, or the ability to beat a specific benchmark of accumulation, is more important than strict profitability, and this is reflected in the constant need to beat analyst expectations on the stock market, rather than produce a stable and normal level of profit. Differential accumulation demonstrates how the control of social reproduction impacts the value, and thus the very 'object' of capital itself; the projected future accumulation of a business is incorporated in the present capitalization through financial market forces (share price). In other words, the quantity of capital, the 'object' at the core of the capitalist system, is a malleable process of social, political and economic control, one that renders production subject to projected future profitability.

The understanding of capital both as a 'good' and a value remains an unresolved dispute in economics that is the result of the 'Cambridge Controversy' initiated by Piero Sraffra (between Cambridge, England and Cambridge, Massachusetts) (79–80). This debate demonstrated that the quantity of capital was dependent on the rate of profit, producing a tautological argument over the ability to 'count' capital as a material input like labour and land. As Steve Keen has explained:

> the concept of capital as a homogeneous substance is an illusion, and that [which] is capital intensive depends on the rate of profit. If the rate of profit is low, then the labour embodied in an ancient wine barrel is of little consequence, and the process of aging wine might appear to be labour-intensive. But if the rate of profit is high, then compounding this high rate of profit makes the ancient wine barrel of great value – and the process could be described as capital intensive. Rather than the rate of profit being dependent

> on the quantity of capital, the quantity of capital (in terms of its value measured by embodied labour value) depends on the rate of profit.
>
> (2001: 146–7)

As a consequence, the rate of profit is not simply dependent on factors of production but reflects the relative power to control production and the terrain of social reproduction in order to accumulate faster than other sectors in society. The greater the level of differential accumulation (see glossary), the greater breadth and depth of accumulation is both possible and *required* in order to continue to 'beat the average'. In the many cases examined by Nitzan and Bichler, differential accumulation provides the impetus for larger and larger mergers and acquisitions (multinational production and distribution) producing greater horizontal and vertical integration across multiple markets and sectors. Thus unlike production-based understandings of contemporary capitalism – ones that attempt to explain market forces as the consequence of struggles over the means of production – Nitzan and Bichler's approach demonstrates the way in which capital is itself a reflection of social struggle between partisan actors.

Differential accumulation demonstrates that while the principles of market forces tend to appear as abstract and universal, in practice capitalism is a partisan effort to establish those principles as the foundation for further accumulation. The ability to capitalize and control the future profitability of different sectors of the economy establishes a basis for future accumulation and thus increases the relative success and profitability of those groups. As Nitzan and Bichler describe it:

> The crucial group is dominant capital – a cluster that we equate with the leading corporate-government coalitions at the core of the process. The periphery of capital, comprising the many firms outside the core, in fact constitutes a permanent threat to accumulation … It is only to the extent that dominant capital can retain and augment its exclusive power against these lesser capitals, keeping them 'out of the loop', that the capitalization process can be sustained and extended.
>
> (315)

Differential profit is contingent on the actions and efforts of specific actors in a system of capitalist accumulation. The institutional arrangements of the absentee owner, in the form of the incorporated business, represent a systemic condensation of conflict for control over social power and societal wealth. The insight of differential accumulation is that the abstraction of these forces as neutral or market-driven necessarily occludes the partisan and contingent basis for those efforts, not to mention the various ways in which these actors exert power over others. Differential accumulation is important in exposing the ways in which the core principles of market actors (the drive for greater profit relative to a given average rate of return, embedded in the legal foundation of the modern incorporated business) belies structural partisan goals, designed to benefit one group at the expense of others. This also exposes the danger of reducing the decisions of actors to abstract processes of market mechanisms, or 'economizing' the processes of accumulation by presenting these mechanisms divorced from their specific context and actors (i.e. that all capitalists are interested in profit maximization), effectively depoliticizing the ongoing struggles between them, as capitalists today are interested in *differential* accumulation. While Nitzan and Bichler attempt to separate the social and capitalist visions of reproductive social order, differential accumulation is an inherently social critique (i.e. calling for the examination of specific actors at points in time) of the universalizing tendencies in both neoclassical and Marxist theories of capital. Therefore, approaches that depoliticize the processes of accumulation, and treat capital simply as a 'thing' – rather than a condensation of social struggle – sacrifice the ability to challenge the system directly.

Consequently the inability of input-based economics, be it neoclassical or Marxist, to explain the core principle of market-driven capitalist economies demonstrates the extent to which effective belief is central to the processes of contemporary capitalism. The tautological quantification of capital in terms of capital in neoclassical economics creates fundamental problems for the core tenets of the market system, including supply and demand, and thus equilibrium, which is the central organizing principle of a market-based ideology. As Nitzan and Bichler explain, the inability to define what capital is without resorting to tautology exposed a problem at the core of capitalism as a system and ideology:

> It began by destroying the notion of a production function which, as we noted, requires all inputs, including capital, to have measurable quantities. This destruction then nullified the neoclassical supply curve, a derivative of the production function. And with the supply curve gone, the notion of equilibrium – the intersection between supply and demand – became similarly irrelevant. The implication was nothing short of dramatic: without equilibrium, neoclassical economics fails its two basic tasks of explaining and justifying prices and quantities.
>
> (80)

The extent of this problem was so potentially devastating that it challenged the explanatory and predictive abilities of economics in general. Without the ability to explain prices, combined with the loss of equilibrium, the powerful stories of supply and demand were rendered theoretically lifeless (though ideologically facile). The truth of this discovery was not that the system was based on a lie; rather it was that the system continued to function quite well with this gaping (academic and ideological) hole at the centre of its edifice. Explaining the pervasiveness of a system that admittedly lacks a foundation of common economic assumptions can only be described as an issue of faith. Thus:

> the neoclassicists … conceded that there was a problem, offering to treat Clark's neoclassical definition of capital not literally, but as a 'parable' (Samuelson 1962). A few years later, Charles Ferguson, another leading

> neoclassicist, admitted that because neoclassical theory depended on 'the "thing" called capital' (1969: 251), accepting that theory in light of the Cambridge Controversy was a 'matter of faith'.
>
> (Nitzan and Bichler 2009: 80)

The parable of equilibrium, supply and demand, and the system of market exchange rests on the belief in the existence of a truth which is far removed from objectivity of daily business reports, the stock market and global financial speculation. The expansive edifice of economic laws, rules, suppositions and assertions of contemporary economics rests on their ability to explain a truth that is already known: capitalism functions. This closely guarded truth at the core of the academic discipline which generates the truisms of the capitalist system day in and day out fulfils what Žižek would characterize as a central function of ideology:

> The structurally necessary illusion which drives people to believe that truth can be found in laws describes precisely the mechanism of transference: transference is this supposition of the Law. In other words, 'transference' names the vicious circle of belief: the reasons why we should believe are persuasive only to those who already believe.
>
> (1989: 38)

Neoclassical economics is ideological not only because it provides a thematic interlocking system of meaning, laws, rules and order, but rather because it derives its authority from the *effective belief* of the success of the capitalist system. An anti-capitalist critique of the global totality of interlocking lives that composes capitalism today must also recognize the ways in which capital itself reflects our complicit participation in the organizing principles of a system that remains opaque to those who lead it. The central lie of capitalism is its very pervasive 'objectivity' (and that there is no alternative) as capital-ism is a globally pervasive ideology that transfers expertise on those who are mostly likely to know that such expertise is based not in objectivity but in faith.

The political insights of the 'unmasking' of expertise that comes from *Capital as Power* remain too closely wedded to the desire to understand capital as a quantification of power, rather than exploring the inherently contested and contestable politics that examining 'capital' provides. While they resist the title, Nitzan and Bichler's institutional perspective follows in the path of much of critical International Political Economy as it seeks to expose the way in which the dominant few dictate the terms of social order and production. This is magnified by Nitzan and Bichler's meta-theories of power embedded in methodological and analytical cartographies of the world understood from a non-subjective space. While the critiques of the figure of the scientific, western, anti-indigenous, rationalist, masculine foundation of such approaches have been addressed extensively throughout the humanities and the social sciences, for the purposes of this argument it is the statist vision of the capitalist world that inhibits the anti-capitalist potential of *Capital as Power*. Their efforts to address the role of the social order and societal input are based primarily on domesticized visions of 'society' as a totalizing, uncontested and inclusive space.

The development of International Relations, and the subfield of International Political Economy (in which their work resides), emerged from the inability of domestic political theories to provide accounts of the importance of relations *between* communities, cities, states, nations and civilizations (hence the 'inter' national). Thus, given the attention to detail about the origins of capital in Egypt, Mesopotamia, the Indus Valley, and China as well as attention to mythology and gods (266) Nitzan and Bichler's subsequent retreat to broad claims about the subjugation of creativity to power (218) does little to retain the struggle inherent in the differential aspects of their work. The emergence of capital as power as a mega-machine, hologram or creorder (see glossary) reduces social difference to functions of institutional mechanisms rather than politicized ones. This problem stems from asserting a vision of *power* as an object of social study, as their work proceeds to retreat into a unified vision of power as a top-down, reified form of historical and social control. The importance of any inter-national perspective on power is that it can explain the complexity of social difference within and *between* societies, and the ways that disciplinary International Relations emphasizes the difference (and struggles) between social orders and social powers. Take for instance, a very commonplace definition of sovereignty such as Stephen Krasner's, which differentiates between domestic, interdependent, international legal and Westphalian forms of power, order and social control (1999: 9–25). To reduce the complexity of the historical development of the International Court of Justice, the emergence of global groups such as Greenpeace and the history of military alliances that led to NATO to a simplistic vision of power as 'the ability to impose order' (Nitzan and Bichler 2009: 305) is to confuse the desire for order with the means to accomplish it, regardless of any presupposition of resistance. Consequently, the genuine insights of differential accumulation as a means of measuring the condensation of forms of social control and power are undermined by the seduction of 'real' power (as power over) rather than their own insights that capital has no 'reality' and is a contingent valuation with no materiality, only relative value (307–9).

The problem that emerges from the conflation of the complexity of power and resistance into 'power over' is that the role of belief is primarily allocated to the position of the capitalist investor, but largely unexplored in terms of its development, impact, affect and development of relative (or subjective) under capitalism. The 'magma' of the social world, which any differential capitalist would attempt to mould into streams of profitability is rendered as secondary to the universalizing character of capital as power. Like world systems and structural theories before them, Nitzan and Bichler view resistance from the position of existing and fully constituted power:

> Judged by contemporary standards, most hierarchical regimes seem highly stable, if not entirely static. Although dynamic in potential, the pace of their creorder was usually restricted. It was capped by material limitations and

> symbolic inhibitions, and it often slowed to a halt by the very success of rulers in eliminating opposition.
>
> (306)

Their critical insights about capital, differential accumulation and the academic controversy over the bifurcation of economics and politics is not carried over to the vision of the 'social', 'cultural' and 'natural' worlds as separate spheres of social inquiry due to the fact that capitalization is theorized as an all-encompassing social algorithm. The concept of 'primitive accumulation' in Marx's work has precisely the opposite vision of societies and the process of their transformations:

> The spoilation of the Church's property, the fraudulent alienation of the state domains, the theft of the common lands, the usurpation of feudal and clan property, and its transformation into modern private property under circumstances of ruthless terrorism, all these things were just so many idyllic methods of primitive accumulation.
>
> (Marx 1976: 895)

Even a cursory examination of the experiences of the development of modernization (much less capitalism) in most developing or underdeveloped nations would provide a wealth of evidence to aid an understanding of the transformation of social order (however conceived) as inherently laden with struggle, translation and resistance to change. Thus, in the process of developing a vision of power from the perspective of capitalists, Nitzan and Bichler are led to the notion that 'the capitalist market … is not a diffusion of power but the *very precondition of power*' (306). The loss of insight does not stem from Nitzan and Bichler's understanding of the relationship between markets and objectivity inherent in the power of capitalization of the modern business; it is Marx's original insights about the process of transforming different social orders into ones dominated by the subjective experiences of capitalism. For example, primitive accumulation in Europe involved a process of purging precapitalist forms of reified social order. As Federici (2004) has argued, the emergence of the Witch hunts employed an array of gendered social disciplining in Europe as a direct result of the processes of primitive accumulation. Transforming peasant societies from the familial collectives of feudal serfdom to nuclear households with gendered wage-division was a massive socio-cultural and religious undertaking. The introduction of male wage labour and the need to purge alternative belief and value systems from market economies required an explicit politicization of social order to pursue accumulation strategies. If witches and sorcery were truly 'antiquated beliefs' and enlightenment rationality so self-evident, the need to murder hundreds of thousands of women for false beliefs should have been unnecessary (Federici 2004: 202–4). The problem of Nitzan and Bichler situating the subjectivity of power as one beyond the contested realms of social, civilization and cultural resistance is that it produces a conception of power that the concept of differential accumulation actively refutes. Societies dominated by the commodity form are not simply ones that transfer power through accumulation to abstract capitalists, the societies themselves are structured by forms of resistance that run from top to bottom, and include the capitalists themselves.

An understanding of capital based on partisan social control over accumulation rests on the effective social belief that capital 'exists'. The social coherence of the capitalist system speaks to the extent to which capital and its 'material' counterpart – the commodity form – helps render coherence and intelligibility (values) to our systems of exchange and consumption. Given the insights of differential accumulation, perhaps today more than ever, any form of contemporary anti-capitalism has to wrestle with the problem of commodity fetishism as a system of coherence and value, imparted through the market processes of exchange. This supposition mirrors Polanyi's understanding of the 'commodity fiction': the idea that land, labour and money come to be the defining symbols of capitalism even though they are not naturally produced for sale. In Polanyi's words:

> Labor is only another name for human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that actively be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally is merely a token of purchasing power which, as a rule is not produced at all, but comes into being through the mechanism of banking or state finance. None of them is produced for sale. The commodity description of labor, land and money is entirely fictitious.
>
> [1944] (1957: 72)

As Polanyi understood it, these fictions become the central principles around which capitalist society is ordered, and they also become the dominant organizing forces that exist to the (assumed) exclusion of all others. If the core of capitalist social organization is based in these collective fictions, as in the Cambridge Controversy, the issue of belief becomes central to its functioning. It is here that the work of anthropologist Michael Taussig makes a crucial distinction for the analysis of capital and commodity fetishism. Rather than frame belief in terms of 'false consciousness' or the 'fictitiousness' of the assertions made, Taussig refocuses the emphasis onto the social importance (or value) of those beliefs. Thus the question becomes: how is it that the commodity form comes to be perceived as substantial and real (Taussig 1980: 4)? Like the quote at the beginning of this chapter, the question should not be framed in terms of objectivity, but in terms of subjectivity. For Taussig, of particular importance is the way that the commodity form translates its social construction into 'phantom objectivity' such that society actively 'forgets' its arbitrary social construction (1980: 4). Therefore, not only does the commodity contain a deeply 'mystical' quality, it begins to manifest a form of agency over its creators. This has a two-fold effect:

> On the one hand, these abstractions are cherished as real objects akin to inert things, whereas on the other, they are thought of as animate entities with a life-force of their own akin to spirits or gods. Since these things have lost

> their original connection to social life, they appear, paradoxically, as both inert and animate entities.
>
> (1980: 5)

Desire, belief and reverence become integral parts of the commodity form for their creators, as the abstraction and alienation of social construction are reenacted through market processes and through the exchange economy of commodities. Indeed, the insight of differential accumulation is that while input-oriented economics try to explain the production of value through the objective categories of the market (through supply, demand, equilibrium or labour exploitation), in practice these efforts rely on the effective coherence of capital and the commodity form. The more convincing the myth of impartial market forces becomes, the more our actions effectively reinforce such a system. Asserting the primacy of market forces is effective because it transforms differential accumulation into the basic economic issues that we all face in our day-to-day lives. As a consequence, Žižek argues that this:

> ideology lies not in getting caught up in ideological spectrality, forgetting about its foundations in real people and their relations, but precisely in overlooking this Real of spectrality, and pretending to address directly 'real people with their real worries.' Visitors to the London Stock Exchange are given a free leaflet which explains to them that the stock market is not about some mysterious fluctuations, but about real people and their products – this is ideology at its purest.
>
> (2001: 16)

The expansion of market principles tends to obfuscate the ways in which social organization has little or nothing to do with 'market' forces, and yet convinces us of the benefit of believing in those market principles. Belief implicates our actions in the replication and reproduction of the myriad systems of partisan control, where the ability to present an abstract and uncontested view of the processes of differential accumulation masks the social costs of the manipulation of distribution for private gain. There are no market forces in general, only specific and particular instances of exchange. The pervasive logic of a self-interested rational-maximizing individual under capitalism creates an allegory about the role of the market in our lives, an interpretive frame that becomes so pervasive it is eventually forgotten. The more we participate in capitalist markets and fulfill our specific, needs, wants and desires, the more we can come to believe that we are self-interested asocial economic calculators (in general terms this is what Gill (2003) has characterized as 'market civilization'). As Taussig has argued, this process of internalization of a specific and partisan social order (capitalism) should be more accurately understood as a strange transformation of social relations, because under capitalism:

> social relationships are dismembered and appear to dissolve into relationships between mere things – the products of labor exchanged on the

> market – so that the sociology of exploitation masquerades as a natural relationship between systemic artifacts. Definite social relationships are reduced to the magical matrix of things. An ether of naturalness – fate and physicality – conceals and enshrouds human social organization … instead of man being the aim of production, production has become the aim of man and wealth the aim of production.
>
> (1980: 32)

To attempt to define capitalism in an abstract or neutral way, as if we could stand above our social context, is precisely what Žižek characterizes as contemporary capitalist ideology. The seductive distancing of reification convinces us of our ability to stand above our social context and apolitically assess the status of a situation (see also Sloterdijk 1987; Bewes 1997). This is the dominant perspective in the current European debt crises, as the economic 'truths' of the situation are contrasted with the inability to develop alternatives within that framework. The issue of determining what capital 'is', is thus caught between the subjective experience of capitalism (the necessary decisions by which we constitute ourselves) and our belief in principles which seem to govern the system and appear to be objective. To the extent to which capitalism appears to us as a set of abstract rules and objective laws, we have effectively adopted the position of the (non-existent) ideal capitalist, one who sees past the social constraints, resistance and limits in order to come to terms with the ever-increasing deepening hold of the capitalist system. It is precisely this apparent objectivity that is the target of the OWS movement. When we depoliticize aspects of the capitalist system, Capital becomes an issue of faith – a belief beyond reason, a choice made without logic – by default – enacted in our day-to-day lives as something we effectively believe because we are so deeply embedded in the practices and logics of the capitalist system. Thus, the OWS movement reflects the dual side of these capitalist truths: it targets the supposed centre of the system as partisan (Wall Street is the 1%) and simultaneously creates an alternative social space whereby resistance is social (occupied). The key point is not whether the OWS movement is objectively right; it is the politicization of political economic processes to demonstrate that each side is partisan and therefore political. Thus we can understand from the position of a subject of society (my subjective position) that the effective coherence provided by the absent figures of both 'the state' and 'capital' and even 'god' comes from the accompanying rules, institutions, codes and conducts by which we effectively show our faith. Imparted by law, order, tradition and sovereign control, these absent symbols effectively define their quasi-material status through our implicit and explicit recognition of their importance. The important question becomes not whether God, Capital or the State exist: it is rather, how do we act in ways which affirm our belief in their existence? The OWS movement was not simply challenging the existence of capitalism; it was challenging the partisan nature of the system of accumulation that represents a convergence of social, cultural and political forms of unequal power.

Political actions which do not target capital and capitalism directly risk becoming trapped in the discursive terrain of hypercritical globalization, rendering capitalism as the backdrop to political action, the practices and terrain upon which the world takes place. Whereas *Capital as Power* develops an excellent account as to the partisan nature of power under capitalism, it does not treat the subjectivity of capitalism as a primary area of struggle.[1] As Žižek has argued, the need to privilege capital over all other specific forms of transgression under capitalism is the beginning of a way to think about the subjective forms of resistance to capitalist power. He too has a critique about the depoliticization of capital, but in terms of the loss of its emphasis in social struggle. The danger of protesting without anti-capitalism is that the 'global dimension of capitalism [becomes] suspended in today's multicultural progressive politics: its "anti-capitalism" is reduced to the level of how today's capitalism breeds sexist/racist oppression and so on…' rather than directly confronting the foundation of these struggles (Butler 2000: 96). The OWS movement has attempted to marry the specificity of arguments of the anti-globalization movement with the explicit anti-capitalism that politicizes the centres of economic and political power. However, this does not mean that there is some requirement or standard upon which 'legitimate' anti-capitalism should be assessed. Rather what constitutes an anti-capitalist effort can be as simple as those struggles which attempt to dislodge the idea of 'capital' as the backdrop of political practice, which is also a primary emphasis of *Capital as Power*. The explicit politicization of capital was made in the Occupy Toronto movement on October 16, 2011, when the group focused on the question 'What is Capital' on their blog (Occupy Toronto General Assembly, 2011) followed by many inquires of the nature of finance capital and the composition of the '1%'. The conscious politicization of the problems of capital is thus integral to developing forms of resistance and struggles to help deal with the nature of power outlined by Nitzan and Bichler. Yet, at the same time, while the exposition of the power of capital is instructive for outlining the role of differential accumulation, Nitzan and Bichler spend more time describing 'the perspective of dominant capital' (349) rather than addressing the political questions of resistance that would seem inherent to such a view.

## Conclusion

Anti-capitalist protest is an important way to begin to unravel the role of belief in our daily practices. From the struggles outside of the G8 and G20 meetings to the efforts of local antipoverty groups, the anti-capitalist protest site should be valorized for the way in which it can challenge our beliefs. There is a certain performative risk that stems from the personal immediacy of the event, and a politics beyond volition. If we are all effectively supporting capitalism in our practices, local protest sites such as OWS hold a privileged place to directly challenge the expansion of capitalist practices under the guise of non-partisan 'economic' policies. In other words, attendance at the protest site risks the status of its participants as capitalist subjects, as the norms, values, systems of meaning, control order and knowledge are suspended in their efforts to develop democratic and social spaces not explicitly determined by forms of 'power over' that benefit the few at the expense of the many. The performativity of protest extends from the refusal to place the body within the domain of power, and the threat of the assembled to form an alternative basis for the sovereign decision and social control. The notion of resistive power has been the study of generations of radicals, activists, anarchists and Marxists, and remains under-theorized in *Capital as Power*, when it has the potential to contribute to the role of resistance as both integral and ongoing to value under capitalism. Thus, dismissing anti-capitalism as naïve and ineffectual on the basis of an outside observer is an obvious and ideological effort to supplant the claims of the protest site with the partisan 'objectivity' of capitalism. Moreover, the inability to immediately bring about anti-capitalist change is not unknown to the participant of protest, and yet their recognition of the importance of struggle sustains their participation and hope, even in the face of impossible odds. The ethics of anti-capitalism risks our very status as capitalist subjects, and acknowledges that resistance emerges from both within and without.

## Note

1 The notion of a 'subjectivity of capitalism' refers to the ways in which we can understand the role of capitalism in the personal experiences, daily lives and sense of self in the contemporary world. These efforts often draw on the insights of psychoanalysis, feminism and Marxism to bridge the 'everyday life' perspective of authors influenced by Henri Lefebvre and the more structuralist visions of ideology through the legacy of Louis Althusser. These efforts seek to analytically develop an account of capitalism through our shared understandings of 'self' and ways of being in the world. For some examples see Butler 2000; Bewes 2002; McGowan 2004; Dean 2009.

# 7 State and capital

## False dichotomy, structural super-determinism and moving beyond

*Sean Starrs*

Jonathan Nitzan and Shimshon Bichler's *Capital as Power* (2009) is one of the most important works in political economy in a long time.[1] It not only demonstrates irreconciliable failings of both neoclassical and Marxian economic theories, but it points the way forward to an entirely new understanding of capitalism: capital as power. This new understanding, however, itself has a serious failing, at least as presently formulated: its treatment of the state. In fact, in their capital as power framework, the state all but disappears into vague 'corporate-government coalitions', and is replaced by a radically new concept of the 'state' as a mode of power (see glossary) of society.[2] And since they argue that that mode of power is now capital, they speak of the 'state of capital'. In effect, they not only repudiate the need for a theory of the state (as distinct from capital), but suggest that we must overcome all conventional understandings of the state as we know it (8, 280–1).[3] While I believe that much of their critique of state theory is valid, in this chapter I argue that their total repudiation of state theory in *Capital as Power* is a critical mistake. I also argue, however, that this need not be so, as I believe a reconceptualization of state theory can make a significant contribution to the power theory of value.

This chapter shall expand this critique in three main parts. In the first part I lay the groundwork for my critique of the 'state of capital' by first presenting Nitzan and Bichler's two critiques of political economy that are relevant to state theory: the separation of politics and economics, and Newtonian versus Leibnitzian space. I then present their solution for overcoming these failings: their conceptualization of the 'state of capital' and of 'dominant capital'. Throughout this discussion I shall emphasize two key claims that lead Nitzan and Bichler to develop their 'state of capital': that capital has permeated the state to such an extent that they are now no longer separate, and that, consequently, one can no longer distinguish a 'logic of the state' that is distinct from the 'logic of capital'. In the second part of this chapter I move to critique the 'state of capital' by arguing that both claims are wrong. I then argue that their conceptualization of the central building block of capitalism – dominant capital – must be reformulated. Ultimately, I argue that while Nitzan and Bichler successfully demonstrate the need to overcome the false dichotomy of politics and economics, as well as the need to replace Newtonian conceptions of the state with a Leibnitzian one, their attempt to do so with the 'state of capital' leads to a partial and ultimately inadequate understanding of the capitalist world order. Thus, in the third part of this chapter I begin to sketch an alternative way forward.

## I Situating the *state of capital*

### *The separation of politics and economics*

Nitzan and Bichler argue that we need to overcome the bifurcation of politics and economics in our conception of capitalism. This bifurcation is expressed in a number of ways, such as the difference between political oppression and economic exploitation, between state intervention and market exchange or accumulation/production, between the struggle for power in the political sphere and the creation of value in the economic sphere, and indeed between state and capital. We must overcome this bifurcation, they argue, for the simple reason that in contemporary capitalist society we can no longer distinguish politics and economics as separate spheres. That is, they argue that modern capitalism has advanced in such a way that it is difficult if not impossible to distinguish between 'the interests of the state' and 'the interests of capital' (30, 272, 278, 301–2). There are three main points in their argument that follow from this effective fusion of politics and economics: 1) accumulation and value must be situated in political economy (not economics alone); 2) the state (or for them, the government) is shaped and driven by the logic of capital; and 3) the corporation is increasingly taking on the roles of the state/government.[4] Below I examine each point in turn.

While a number of commentators, from Ralph Miliband [1969] (1977) and Nicos Poulantzas [1978] (2000) to Joseph S. Nye (1990) and Susan Strange (1988), have pointed out that capitalist accumulation cannot occur without the capitalist state, all strands of political economy (whether consciously or not) hold that value is determined in the 'economic sphere' alone, whether by the law of supply and demand based on utility or in the labour process of production. This is the fundamental point of departure for Nitzan and Bichler. In their work they demonstrate that this is impossible for a wide range of reasons (Chapters 2–8). For them, the calculation of value is a much wider societal process that encompasses both politics and economics to the point where we cannot distinguish them. Thus, while the value of Microsoft is certainly a function of the labour that goes into its products and services (but what proportion is impossible to say), its value as a firm is crucially also dependent on its power to influence the government to uphold intellectual property rights (again, what proportion is impossible to say) – in addition to a whole range of other corporate strategies that are well beyond the realm of 'production' (297). This impossibility to quantify the contribution of each component of value leads to the broader point that value is socially constructed and determined by power relations – hence the power theory of value.

Beyond the argument that it is impossible to distinguish what proportion of value is affected by 'politics' and what proportion is affected by 'economics', Nitzan and Bichler assert that it is difficult to distinguish any separate logic at all between government and capital. Indeed, they argue that since the rise of capitalization in the fourteenth-century Italian city-states, governments gradually became 'bonded' to capital (with the rise of the government bond market), as warring sovereigns needed to borrow more and more due to the escalating costs of warfare (292). This nexus has now developed to the point where 'the government bond market has become the heart of modern finance. It provides the biggest and most liquid security market; it offers a vehicle for both fiscal and monetary policy; and it reflects, through its benchmark yield, the universal normal rate of return' (297). Perhaps the latest manifestation of how capitalization now shapes and drives government, Nitzan and Bichler suggest, is the explosion of sovereign wealth funds since the 1990s. As governments with surplus capital pour their savings into financial assets across the world, Nitzan and Bichler argue that 'it is not clear how their investment and divestment decisions would differ from the business-as-usual policies of ExxonMobil, Bechtel or Samsung' (301). Hence, for these reasons and more, they argue that capitalization not only affects but drives the very core of government decision-making in a capitalist society.

On the other side, Nitzan and Bichler claim, not only are governments driven by the logic of capital, but corporations are taking on more and more functions that are traditionally associated with government. To illustrate their argument they use the case of Wal-Mart (299). Because of Wal-Mart's massive market share, it has the power to dictate terms and conditions to its thousands of suppliers. Therefore, interest groups of all stripes, from environmentalists to the manufacturing sector, increasingly lobby Wal-Mart instead of government to implement this or that policy to affect widespread change. Furthermore, Nitzan and Bichler assert that:

> This example of private regulation is by no means exceptional. It keeps popping up in many different areas – from the setting of accounting standards and the determination of monetary policy, to military spending and the waging of war, to the commercialization of legal arbitration and the choice of pharmaceutical practices – all instances in which corporations act as regulators of the capitalist environment in which they operate.
>
> (299)

For these reasons then, Nitzan and Bichler argue that we not only cannot distinguish between politics and economics in the logic of capital, but that government and capital are now fused:

> [C]apital and state do not stand against or function together with each other. They do not complement or undermine one another. They neither interact nor interplay. And the reason is simple: they are no longer separate. Capital itself has become an emergent form of state: the *state of capital*.
>
> (278, emphasis in original)

It should be emphasized that this is an entirely new conception of both the state/government and capital. It repudiates *all* hitherto theories of the state, which regard the state – even if symbiotically related – as separate and distinct from capital.

### *Newtonian versus Leibnitzian space*

Nitzan and Bichler's second critique of political economy is that it is mired in an anachronistic Newtonian conception of space. It 'assumes that space exists *independently* of what it contains, and that space is *absolute* rather than relative' (278, emphases in original). Liberal notions of the 'market' conform to this as its actors interact without changing the overarching 'laws of economics', such as supply and demand, unless there is outside political intervention. In International Relations theory, Realist conceptions of the state also follow this model, as states interact and pursue their 'national interest' in the space of international anarchy. And Nitzan and Bichler argue that while Marx's concept of the 'mode of production' may appear to overcome Newtonian space because it seeks to be 'historical and dialectical', 'his theory of value and accumulation remain[s] locked in the Newtonian mechanics of productive labor' (280). This move inevitably fractures space into politics and economics, the latter of which becomes ahistorical and undialectical in its determination of value in production (280).

Nitzan and Bichler propose to overcome this ahistorical and undialectical notion of space by drawing upon a Leibnitzian conception of space. This alternative conceptualization 'interprets space not as independent of the things, but rather as the *order of the things*. This type of space is defined by the very relations of the entities that "make it"' (278, emphasis in original). Thus, the Newtonian concept of space is 'as the *container* of all material objects', whereas Leibnitzian space is 'the *positional quality* of the world of material objects' (278, emphases in original). As a result, with a Leibnitzian conception of space shaping our understanding of the social world, we must not so much analyse the interaction of actors in a space, as analyse how that interaction not only *constitutes* the space but *changes* it as well.

### *Modes of power and the state of capital*

Nitzan and Bichler introduce the concept of 'modes of power' as their solution to overcoming both the separation of politics and economics, and the Newtonian conception of space. They argue that 'hierarchical social orders are better understood not as modes of production, but as *modes of power*' (280, emphasis in original). This is primarily because social relations stemming from how production is organized is only one facet – even if an essential one – of the architecture of power in that society. Hence, they regard slavery and feudalism, as well as capitalization, as distinct modes of power rather than modes of production, each with its 'own particular configuration' (280). And viewing these 'hierarchical social orders' as modes of power emphasizes their historicity since power in general is inherently relational, and capitalist power in particular is highly dynamic and capable of constantly ordering and re-ordering society.

In terms of how the 'state of capital' relates to a mode of power, and how they wish this 'state' to replace the conventional use of the term, it is worth quoting them at length since this is a completely new conceptual framework:

> We propose to think of the mode of power of a society as the 'state' of that society. Obviously, this conception of state is very different from conventional definitions. In common parlance, a state is a political entity that exercises sovereignty, backed by force, over a definite territory … This definition may seem relatively unambiguous when applied to pre-capitalist centralized regimes, where the organizations and institutions of power were usually associated with and commonly fused in a single entity – 'estate', 'palace', 'king', 'emperor'. But with capitalism, this application is no longer straightforward … and the capitalist state no longer fits into the conventional box … Our own notion of state as a mode of power is broader and more flexible. First, it transcends the analytical distinction between economics and politics … Organized power … insofar as the overall structure is hierarchical … constitutes a *single nomos of power*. Second, the nomos of power is not fixed … it is a Leibnitzian-like space: an ever-changing, historically specific relational entity that both comprises and is shaped by the bodies that constitute it.
>
> (280–1, emphasis in original)

Crucially, then, what are the bodies that constitute this Leibnitzian space of the 'state of capital'? Again, it is worth quoting at length:

> In contemporary capitalism, the key organizational bodies of the state are corporations and government organs … First, both bodies are conditioned by the same *nomos* of capitalized earnings and its associated rituals … Second, they presuppose each other: there are no capitalist corporations without a capitalist government, and [vice versa]. And, third, by incessantly seeking to redistribute capitalized earnings, whether at cross purposes or in unison, corporations and governments end up shaping and reshaping the very patterns of power that define capitalism … We call this Leibnitzian-like space the *state of capital* … defined by *capital as power*
>
> (281–2, emphases in original)

Hence, corporations and governments constitute the space of the state of capital, which is shaped by the logic of capitalization, and driven by differential accumulation.

### ***Dominant capital***

Finally, we get to the empirical heart that must give life to their capital as power framework: dominant capital. For the capitalist order is not shaped and ruled by *any* corporation or government organ, but by what they call 'dominant capital', or 'the *leading* corporations and *key* government organs at the epicentre of the process' (17, emphasis added). How do we determine which 'leading corporations' should be included in our conception of dominant capital? They use various lists of the top corporations based on such indicators as market capitalization – arbitrarily cut-off at the top 50 or 100 (316–7). But how do 'key government organs' fit into this conceptualization of dominant capital? Which do we choose, how and why? How do they relate with the top 100 corporations? These questions are not addressed in their book, nor in any of their work to my knowledge. And it is here, I believe, where their 'state of capital' begins to crack from within. To flesh this out, I return to the separation of politics and economics.

## II Critiquing the *state of capital*

First, let us review Nitzan and Bichler's main claims concerning the 'state of capital'. Capital accumulation cannot be seen as a strictly economic affair – we must expand our conceptualization to encompass the power of capitalists to order society at large. Hence, we must study political economy, and overcome the separation of politics and economics in our understanding of capitalism, which has mired the social sciences virtually since its inception. We must also overcome ahistorical, undialectical and mechanical Newtonian conceptions of space, and reconceptualize the terrain of political economy as Leibnitzian, in which the relational properties of entities constitute and reconstitute space. Thus, in order to overcome these two failings, Nitzan and Bichler introduce the 'state of capital'. They argue that the logic of capital – capitalization – has increasingly permeated European states since the fourteenth century, and this permeation has reached such an extent today that one can hardly tell them apart. That is, one can no longer distinguish a 'logic of the state' that is separate from the 'logic of capital'. Hence, capital has become the state, the state of capital.[5] The following critique is divided into two sections: on the false dichotomy of politics and economics, and on the conceptualization of dominant capital.[6]

### *The separation of politics and economics*

I think their argument that the creation and accumulation of value in a capitalist society is both political and economic is utterly convincing. Implicit in this acceptance is a rejection of both the utility and labour theories of value, replaced with the conception of value as socially constructed, subjective and determined by power – hence the power theory of value. Therefore, the logic of capital – capitalization and differential accumulation – cannot be reconciled with a separation of politics and economics; they must be fused by the study of political economy.[7] But does it follow that a rejection of the bifurcation of politics and economics in an understanding of the logic of capital necessarily leads to the conclusion that one can no longer distinguish divergent logics between state and capital – let alone whether they are distinctly constituted? I think not, and I shall develop my critique as follows. First, contra Nitzan and Bichler, I argue that state and capital *are* in fact distinctly constituted, with separate institutional roles that cannot *a priori* be regarded as following the same logic. More specifically, with some qualifications, capital *can* be conceptualized as being driven by a singular and quantifiable logic (that of differential accumulation), whereas the contemporary state *cannot*. Rather, the state must be seen as being driven by multiple and possibly contradictory logics, not all of which are quantifiable. Fleshing this out will form the bulk of my critique. Second, and following from the first, I argue that we must reformulate the concept of dominant capital by expunging all references to the state/government, and keep only the top corporations. Thus, these two sections together amount to a rejection of the 'state of capital'.

To repeat, I think Nitzan and Bichler are correct to argue that a corporation's *raison d'être* is differential accumulation (see glossary): this is the logic of capital.[8] But I think they are wrong to argue that this logic of capital has permeated the state to such an extent that we can no longer distinguish any separate 'logic of the state'. To put it differently, much of what the privately owned corporation does is in the 'interests of capital' (i.e. differential accumulation), whereas I argue that much of what the state does is *not* in the interests of capital, and in fact sometimes the state acts *against* the interests of capital. If this can be shown, then we *cannot* fuse state and capital under the singular logic of the 'state of capital'. We must avoid reductionism by attempting to fully conceptualize the contemporary state in all its historical, geographical and dialectical complexity. Thus, the remainder of this section shall attempt to demonstrate that there are non- and even anti-capitalist logics that continue to be present in the actions of the contemporary state, both domestically within its territorial boundary, and externally in international relations.

It is not difficult to find domestic policies and regulations implemented by contemporary states that are designed to protect the interests of the population and/or the environment against the interests of capital. For example, many states ban child labour and slavery, ensure a minimum wage and overtime pay, ensure minimum health and safety standards in the workplace and consumer market, maintain state-funded healthcare and water treatment services, implement a slew of environmental regulations, and many more. All of these policies and regulations protect the interests of people and/or the environment *at the expense* of profit. That none of them have overthrown capitalism is beside the point: the point is that it is overly simplistic, reductionist and determinist to subsume the 'logic of the state' and the 'logic of capital' if one can still identify non- and/or anti-capitalist logics operating in the state. One could retort that the logic of capital is permeating all levels of the state and will eventually 'win-out', and/or that the *dominant* logic of the state is the logic of capital.[9] By contrast, I argue that: 1) we must avoid the teleology of pre-determining the capitalist logic of each state, and instead theorize the state as a Leibnitzian space that is historical, dialectical and thus open-ended; and 2) even if the logic of capital *is* 'winning-out' and/or the most dominant, we must adequately conceptualize the other logics – no matter how insignificant or in retreat – in order to understand their relation, how their relation *constitutes* the state as a Leibnitzian space, as well as possibilities for transformation.

Thus, we must avoid characterizing capitalization as marching ever onwards such that, 'by the early twenty-first century, it has grown into the most powerful faith, with more followers than all of the world's religions combined' (Bichler and Nitzan 2010a). Rather, if we instead adequately peer into the nature of each state, then we might see that private ownership of capital is not at all as sacrosanct as Nitzan and Bichler seem to believe. In fact, in the first decade of the twenty-first century, state-owned enterprises (SOEs) have made something of a comeback. Due largely to the rise of Brazil, China and Russia, by 2011 exactly a quarter of the Forbes Global 100 are SOEs.[10] Of course, one may argue that SOEs follow the principles of capitalization, so what is the difference if they are semi- or fully-owned by a state? On the contrary, it makes a big difference, because numerous states employ a wide range of measures to force their SOEs to prioritize state-determined national industrial policies above the SOE's own capitalization and differential accumulation. There is an entire cottage industry on how the northeast Asian states of first Japan and then South Korea and Taiwan have accomplished this (e.g., Amsden 1989; Cumings 1999; Woo-Cumings 1999). The classic work in this literature is Chalmers Johnson's *MITI and the Japanese Miracle* (1982), in which he coins the term 'developmental state'.

China today is attempting to follow in Japan's footsteps (Cumings 2009; Woo-Cumings 1999), albeit with even greater state direction as the Chinese state maintains ownership of the commanding heights of the Chinese political economy: 20 of the top 20 Chinese firms are SOEs.[11] The Chinese Communist Party (CCP) micro-manages its SOEs to an extent that is unimaginable in the United States. One of countless examples: in 2010 the CCP blocked Sichuan Tengzhong Heavy Industrial Machinery's proposed acquisition of GM's gas-guzzling Hummer in line with its national security policy of reducing dependence on foreign oil imports (Mackenzie 2010). While the US state certainly gives incentives such as tax breaks and other subsidies in an effort to broadly encourage American firms to invest in one sector over another, or to keep high-value manufacturing (such as aerospace and automobiles) within the US territory, it is quite another prospect to directly manage a firm's investment decisions. American firms are expected to prioritize the profit-motive of its dominant shareholders and not the industrial policy of a state. The CCP, however, employs a wide array of mechanisms to ensure that all firms in China (not only SOEs) do not contradict Chinese state industrial policy. For example, the CCP heavily restricts private firms' access to credit, by simply restricting what the banks (which are state-owned) can lend to them (Anderlini and Jacob 2011). Also, it is notorious that to do well in Chinese business one must cultivate close ties with CCP cadres.[12] All of these nuances are foreclosed if we argue that, in line with the 'state of capital', 'the oligarchy of the Chinese Communist Party obeys the very same rules as the capitalists. And that obedience makes the Chinese government – regardless of how "sovereign" or "non-capitalist" it may otherwise look – part and parcel of the capitalist mode of power' (Bichler and Nitzan 2010a).

And developmental states are not limited to East Asia. Brazil is studying the state-led nature of Chinese growth, and the newly elected Brazilian President Dilma Rousseff is re-orienting and re-affirming control of Brazil's industrial policy (Leahy 2011). For example, despite Vale being the 53rd largest corporation in the world and the world's largest in diversified metals and mining (Forbes.com), and despite its CEO Roger Agnelli in February 2011 reporting record profits of over $17 billion, less than a month later the Brazilian government forced Agnelli's removal because he: 'refused government demands for Vale to reduce its focus on China and start investing more in the domestic steel, shipbuilding and fertiliser industries in a bid to widen Brazil's industrial base' (Pearson and Leahy 2011). Again, this is quite alien to the nature of the American political economy: while the US state may encourage firms to invest in a particular way, it is hard to imagine a US president removing the CEO of a globally leading corporation because he or she refused to follow the investment directives of the state. And it is even harder to imagine this within the framework of the 'state of capital'.

Internationally, however, the US state does have direct influence over certain investment decisions of the world's leading corporations, and it is difficult to understand this with the 'state of capital'. For example, the US State Department bans American firms from exporting various military and dual-use technologies to a list of countries, including China but excluding Japan (US State Department). This contradicts the logic of capital, since China is growing much faster than Japan with arguably greater returns in the longrun. China is now a bigger US trading partner than Japan, many American firms already have very profitable operations in China and it is of course in their interest to increase their market-share, and certainly both Chinese capital and the Chinese military want this technology. Moreover, US state power even governs the investment decisions of firms home-based outside the US. In 2009 British-based Lloyds and Swiss-based Credit Suisse, in 2010 British-based Barclays and RBS, and in 2012 British-based Standard Chartered, all paid fines to the US state to the tune of $350 million, $536 million, $298 million, $500 million and $670 million, respectively, for disobeying the US investment embargo on Iran (Chung and Larsen 2009; Simonian 2009; Goff 2010; Robinson 2010; Nasiripour 2012).

If these examples do not seem to be in the 'interests of capital', then must we not theorize the 'interests of the state' separately? Also, why should the world's top corporations, particularly those not even home-based in the US, care less about the directives of the US state? And what gives the US state the authority – or even capacity – to monitor their investment decisions, let alone impose massive fines if they do not obey orders? More pointedly, I think these examples show that when the interests of capital (even if the world's most powerful corporations) come into conflict with the geopolitical interests of the US state, the latter takes precedence at the expense of the former.[13] Of course, to claim that the US state expects global capital to prioritize American geopolitical interests above their own differential accumulation is not the same as saying that the US state is able to enforce this expectation all the time. But even if it happens once, then we have to question the 'state of capital', and at the very least acknowledge that there could be contradictory logics between state and capital.

This leads to a related point. If we subsume state and capital under the rubric of the 'state of capital', we lose the capacity to theorize adequately the qualitatively unique power of the United States vis-à-vis all other states in world order. Or to put it differently, we can judge the power of a corporation by various indicators such as assets, market value, profit and sales – all of which are quantifiable – but how do we determine the power of the United States vis-à-vis Cameroon, Canada, China and Croatia? The literature on all facets (including whether or not it is in decline) of American state power is vast, and outside the purview of this chapter (see Starrs 2013). I shall merely mention that one must not only consider quantifiable but also unquantifiable aspects of American power. Examples of the latter include various forms of cultural, diplomatic and ideological influence a state has over other states, or what Joseph S. Nye (1990) calls 'soft power'. Similarly, one must consider what Susan Strange (1988) refers to as 'the knowledge structure', as generated in the world's leading universities, think tanks and other institutions. This 'structural power' leads to the capacity to shape the global agenda and discourse, and the range of legitimate issues to be discussed in global forums (Strange 1988).

Furthermore, one cannot have an adequate understanding of American state power in the contemporary period without an understanding of its development since the nineteenth century. Nitzan and Bichler in *Capital as Power* provide a virtuoso analysis of the rise of the leading corporations since the nineteenth century, and this is certainly related to the rise of American state power, but it is only one aspect (even if a crucial one). Perhaps the most important aspect of this rise is how after World War II the US state penetrated the former Great Powers in Western Europe and Japan in a way that made them dependent on American power.[14] In any case, this entire – and in my mind essential – debate is lost if we subsume state and capital under the rubric of the 'state of capital', for if the state is no longer separate from capital, then there are no means to determine the power of states *independent* of capitalization. While capitalization is important in an analysis of state power, there are also many other factors, not all of which are quantifiable.[15]

What of the other side of Nitzan and Bichler's argument, that the government not only follows the logic of capital to the extent that one cannot tell them apart, but that corporations are taking on more and more functions traditionally associated with government policy, such as regulation? Their Wal-Mart example is interesting and important, but I think they take it too far.[16] For as long as the state exists in its contemporary form (at least in the advanced capitalist world), the state will always be more effective in implementing regulations than a corporation, no matter how large its marketshare. This is because the state's regulations affect not only the entire corporate universe and the entire population, but also all living creatures, the Earth itself, and even all inanimate objects within a given territory. Not even the most powerful corporations in the world have this reach, and even if they did, corporate policies are not legally enforceable with an extensive penal system ultimately backed by violence – whereas state regulations are.

Furthermore (again, at least in the advanced capitalist world), the laws of the state always hold primacy over corporate policies: for example, it is illegal to own slaves in Canada, and so no corporation in Canada can (openly) own slaves no matter how powerful it is.

To sum up, then, we cannot regard the logic of capital as permeating the state to such an extent that it has become the state, the 'state of capital'. There are still separate and distinguishable logics driving capital and the state. For the most part, the logic of privately owned capital is capitalization and differential accumulation. Privately owned capital thus has a singular and quantifiable logic. The state does not. Rather, the state has multiple and sometimes contradictory logics, not all of which are quantifiable. We must not be reductionist nor teleological. We must remain historical and dialectical, including in our conceptualization of dominant capital.

## *Dominant capital*

Finally, to the heart of the matter that towers above all else in the capitalist order: dominant capital. My critique is simple: Nitzan and Bichler claim their conception of dominant capital is the central power institution of the 'state of capital', comprised of key government organs and the top corporations, and yet when they get down to analysing dominant capital, government organs fall from the picture entirely. They only outline the various regimes of differential accumulation of the top corporations, and in the core of their chapters relating to defining and explaining dominant capital (Chapters 14–16) there is no mention of how the government (and which organs of which governments) fit into this picture. One could perhaps give them the benefit of the doubt and say that their book is already monumental, and opens space for further investigation within their framework. But I do not think this disappearance is merely due to a lack of space: I think it follows logically from their analysis. For if the government, like the corporation, is driven by the logic of capital, if they have no separate logic, and if corporations are even taking on more and more functions of government, then there is no basis for estimating their power any differently. They become merely add-ons to the leading corporations. Or to put it in state theory terms, capital has completely captured the state to the extent that one cannot tell them apart (motivated as Nitzan and Bichler are to overcome the separation between politics and economics). This is instrumentalism in its most extreme form; in fact it is 'structural super-determinism' since anything the government does can only be explained 'in the last instance' by the logic of capital.[17] Is this satisfactory?

To put it differently, even if we give them the benefit of the doubt in their silence, can we leave it to others to discern how corporations and government organs relate within the space of 'dominant capital'? Can we delineate how, on a concrete empirical basis, we determine which governments, or even which government organs within a government, we should include in our analysis of dominant capital? Perhaps it is possible to argue that certain government organs within each state have become more important because of their role in the logic of capital. Robert Cox (1987), for example, (from a different perspective) argues that the 'transnationalization of the state' has made those organs most involved with global capitalism (such as the Central Bank, the Executive, the Ministries of Finance and Foreign Affairs), more important within the state than other organs, such as the Ministries of Health, Labour, Welfare, and so on. But, for reasons stated in the previous section, if we are to peer adequately inside the space of *inter*-state relations, then we would need criteria in addition to those relating to the logic of capital in order to determine which governments to include in our conception of dominant capital. But then, this implies that there are other criteria apart from the logic of capital, which then means we cannot envision capital as subsuming the state. And if this is the case, then the foundational starting point of the 'state of capital' – that the two are not separate – breaks down.

Also, for reasons that will be elaborated in Part III, I think it is important to conceptualize the state as a Leibnitzian space. But if we sweep government organs under the rug of dominant capital, then it is no longer possible to conceptualize a Leibnitzian space. This is because dominant 'corporate-government coalitions' are supposedly: 'locked into a unitary logic … subservient to [their] own architecture of power. Dominant capital cannot deviate from the boundaries of this architecture, even if it wants to. Its individual members are forced to accept the very logic they impose on the rest of humanity' (21). In other words, their concept of dominant capital is a Newtonian containter par excellence, akin to the neoclassical 'market' or the realist 'anarchy of international relations', in which no actor within the space is able to change its universal laws. This is perhaps appropriate in our conceptualization of the leading corporations, which must differentially accumulate or die.[18] But I think it is highly premature and a grave mistake to foreclose the possibility of systemic transformation coming from 'government organs' – i.e. supposedly one-half of dominant capital. I shall offer an alternative conceptualization in Part III.

Despite the above failings, however, I do not argue that we should dispense with the concept of dominant capital entirely. I merely argue that we must expunge 'key government organs'. I think this exorcism is not only possible while keeping the brilliant analysis of differential accumulation intact, but that it is easy since there is nothing we need to renegotiate. Rather, it is precisely the leading corporations (whether privately or state-owned) – and not 'key government organs' – that conduct mergers and acquisitions, greenfield investment, and other regimes of differential accumulation. Thus, as the role and relation of 'key government organs' within dominant capital is left opaque and unaddressed in *Capital as Power*, I think we can expunge all references to the government in our conception of dominant capital and still retain the analyses in Chapters 14–16 relating to the top corporations. We still need, however, to reconceptualize the nature of the state, as well as theorize its relation to dominant capital. To this I now turn.

## III Moving beyond: towards a reconceptualization of the state

I believe – contra Nitzan and Bichler – that it is not only possible to overcome the false dichotomy of politics and economics while still referring to state and capital as separate and distinct entities, but *necessary*. I think this is possible if we leave Nitzan and Bichler's conceptualization of the logic of capital as capitalization and differential accumulation largely intact, as well as dominant capital expunged of government organs, while reconceptualizing the theory of the state and its relation to capital. I shall attempt to sketch the beginnings of such a reconceptualization in what follows, by first drawing upon Marxist state theory.

I think Ralph Miliband provides a useful starting point. He argues that the state does not exist as a single coherent 'thing', but is comprised of six apparatuses that all compete and cooperate, and interact to constitute the 'state system' [1969] (1977: 46). These six apparatuses are: 1) the elected government and/or the executive branch; 2) the unelected administration or bureaucracy, including 'public corporations, central banks, regulatory commissions, etc.'; 3) the security apparatus, namely the military and police; 4) the judiciary; 5) the various institutions of the sub-national governments; and 6) the elected legislative assembly [1969] (1977: 46–50).

It is with these six apparatuses taken together that we may speak of the 'state' (and the leaders of these apparatuses constitute the 'state elite'), which, as we can see, is more encompassing than simply the 'government'. The latter means, for example, that when a particular political party is elected to government, it does not at all follow that it has power over all apparatuses of the state, and certainly not over the political system.[19] The political system must be distinguished from the state system, in that the former encompasses the full range of social forces that influence the latter, from the top corporations (and various fractions within) to small and medium-sized enterprises, from religious groups to social movements of all stripes. Drawing upon Miliband in this way I think allows us to be clear on what we mean by 'the state' (a clarity which Nitzan and Bichler do not share in their 'government' or 'corporate-government coalitions'), and allows a richer analysis of the nature and inter-relation of each apparatus within each state system, as well as the nature and inter-relation of each political system, and to not *a priori* reduce state functions to the logic of capital. Rather, we have to analyse the constituent make-up of each state in each social formation (which even on a superficial glance is rather different in Bolivia, China, Cuba, Egypt, Germany, Iran and the US). Only then can we begin to address the question: what is the logic and/or interests of the state in a particular action?

When analysing the nature of each social formation, I think drawing upon Nicos Poulantzas is useful, especially his admonition that the state is neither a 'thing' nor a 'subject', but a *relation*. To see the state as a 'thing' is to fall into the 'old instrumentalist conception' of many Marxists (and I would argue Nitzan and Bichler), in which 'the State is a passive, or even neutral, tool which is so completely manipulated by one class or fraction that it is divested of any autonomy whatsoever' (Poulantzas [1978] 2000: 129). And to see the state (especially the bureaucracy) as a Weberian 'subject' is to imbue it with 'an absolute autonomy that refers to its will as the supposedly rationalizing instance of civil society' (Poulantzas [1978] 2000: 129).[20] Both conceptions disregard how the power *relations* and struggles of society fracture the state precluding any monolithic unity, as they fail 'to grapple with the decisive problem of *internal contradictions* *within the State*' (Poulantzas [1978] 2000: 131, emphasis in original). This leads us, among other things, to fail to conceptualize (and with the 'state of capital' ignore) why and how a state implements policies that are *opposed* to the interests of the ruling class. Thus, we need to see the 'interests of the state' as the particular condensation of the contradictory relations of the various social forces that constitute (and can re-constitute) a social formation, delineated by the boundaries (which are porous and unfixed) of its nation-state.[21]

This alternative conceptualization of the state forces us to investigate empirically whether the various nation-states in the world today can be said to be driven by the logic of capital – perhaps in some cases it can, others not, and perhaps in most cases there are contradictory tendencies. It also forces us to pay more attention to the full gamut of social forces within a nation-state, whereas the 'state of capital' focuses almost exclusively on what it conceives as one broad social force imposing its order on the rest of society: dominant capital. As I attempted to show in Part II, the latter approach renders a highly partial and distorted picture of world order.

How can we theorize the relation of state and capital? I think Nitzan and Bichler's historical account of the interconnected rise of capitalization and the state bond market since the fourteenth century is very important, except that there was never any fusion between state and capital. They remain distinctly constituted and organized, and dominant capital is but one social force within the social formations of most contemporary states, even if usually the dominant one. Nevertheless, the relationship between the state elite and dominant capital is different in different states, as the discussion above on the East Asian developmental states demonstrates. For example, the Chinese state elite – namely the upper echelons of the CCP – is the dominant social force in China, not the new and burgeoning Chinese capitalist class (of course, whether this continues to be the case in the following decades remains to be seen). The CCP controls and directs Chinese capital to fulfill the CCP's primary goal: the continuation of its power within the Chinese social formation (and some would argue increasingly abroad as well). Drawing upon Miliband and Poulantzas forces us to investigate this relationship between the state elite and dominant capital, whereas the 'state of capital' prevents us from seeing it.

Moreover, investigating the relation between state and capital allows us to see the vital importance of theorizing the nationality of capital.[22] With limited space, I can merely assert that capitalization is an insufficient measure of power if we do not also consider the nationality of capital.[23] This is clearest in times of financial crisis, when a collapsing firm seeks to be bailed out by 'its' state (i.e. the state in which it is home-based), and its success becomes dependent on the particular capacities of 'its' state. Hence it is important to analyse divergent state capacities across the world. In particular, one must theorize the qualitatively unique capacities of the US state, and the affect this has on the continued success of firms home-based in the US vis-à-vis firms based abroad that consequently do not have access to American state capacities (and in fact are often the target of them).[24] There are countless examples: one is US President Reagan's successful attempt to curtail the rise of Japanese corporations in the 1980s, employing a range of tactics from imposing 'voluntary export restraints' under threat of trade sanctions to pressuring Japan to appreciate its currency in the 1985 Plaza Accord (Cumings 1999). Over 20 years later and Japan has still not recovered.

Thus, I think this alternative conceptualization of the state allows us to investigate aspects of the capitalist world order that become invisible in the 'state of capital', while still overcoming the false dichotomy of politics and economics in our understanding of differential accumulation, since I keep Nitzan and Bichler's analysis in this regard largely intact. I also think this conception of the state is Leibnitzian par excellence, as it places at the centre of its analysis the necessity of empirically investigating the nature and inter-relation of the various social forces that constitute the state, how that interaction is reflected in often contradictory state policies, and how that interaction might transform the state in radically different ways. In fact, while capital depends on the state for its survival, the state does not necessarily depend on capital for its survival. The twentieth century is replete with examples of formerly capitalist states transforming into *anti*-capitalist states because of revolutionary social movements. That most of them ultimately failed – apart from a few outliers like Cuba and North Korea – and that most of them were not exactly the most desirable places to live, is beside the point: their mere coming into existence demonstrates that it is possible to obliterate capital within a social formation. And we should not discount human creativity in envisioning a better future than that offered by twentieth-century communism, not to mention twenty-first century capitalism. Therefore we cannot *a priori* assume that all capitalist states act in the fixed and unitary interests of capital, as in the 'state of capital'. Alternative possibilities exist, and the future is dependent on human will and choice.

## Notes

1 I gratefully acknowledge very helpful criticisms made by Tim Di Muzio, Joe Francis, Sandy Hager, Jonathan Nitzan, James Parisot and Gil Skillman on previous drafts. All failings are of course my sole responsibility. I also gratefully acknowledge the Social Sciences and Humanities Research Council of Canada for funding.
2 To avoid confusion, references to the state in the conventional sense as a 'political institution' will be made without quotation marks, and references to the 'state' in the radical conceptualization of Nitzan and Bichler will be made with quotation marks.
3 All page references are from Nitzan and Bichler 2009 unless otherwise noted.
4 Following Nitzan and Bichler's usage, I shall now refer to the 'government' and dispense with the conventional use of the state, and return to this problem in Part II.
5 Citations were given above demonstrating the various ways in which Nitzan and Bichler view government and capital as no longer separate, but this point is worth emphasizing because it is fundamentally different from all previous conceptualizations of the state: Nitzan and Bichler's 'perspective is unlike that of conventional political economy. Liberal ideology likes to present capital and state as hostile, while Marxists think of them as complementary. But in both approaches, the two entities – although related – are *distinctly* instituted and organized … Our view is very different. As we see it, the legal-organizational entity of the corporation and the network of institutions and organs that make up government are part and parcel of the same encompassing mode of power. We call this mode of power the *state of capital*' (8, emphasis in original).

6 Due to lack of (Newtonian) space, I can only briefly critique their use of Leibnitzian space, and 'modes of power' not at all. Hopefully, however, a critique of their two most important themes will render a thorough critique of all four redundant, since they are all connected.
7 This deserves emphasis: While some attempt to overcome the separation of politics and economics (Miliband [1969] 1977; Nye 1990; Strange 1988) – without a reconceptualization of value theory, one inevitably (whether consciously or not) falls back on the utility or labour theories of value anchored in exchange or production, i.e. the 'economic sphere'. So while I agree with Nitzan and Bichler's argument that we cannot separate politics and economics in our conception of the accumulation of value, this does not necessarily mean that we need to subsume capital and the state.
8 Following Nitzan and Bichler, the corporation is the 'central building block' of 'contemporary capitalism' (314). An important caveat, however: contra Nitzan and Bichler, I think we need to distinguish privately owned corporations (which follow the logic of capital), from state-owned enterprises (which do not always follow the logic of capital) – more on this later. And according to Troy Cochrane (personal conversation), there is further qualification, as some predominantly family-owned corporations occasionally prioritize the interests of the family over differential accumulation.
9 Or, as Bichler and Nitzan (2010a) end their reply to an earlier version of my critique: 'Contemporary governments are part and parcel of this capitalist mode of power. They can differ greatly in their composition; they can reflect and represent different social groups; and they can employ different policies. But the power space within which these governments are enfolded is increasingly capitalistic, and that enfoldment makes them elements of the state of capital'. To be clear, I am *not* arguing that Nitzan and Bichler view all states as the same.
10 Ranking by Forbes.com is a composite of Assets, Profit, Sales, Market Value; ownership data available on Bloomberg Professional.
11 Ranking by Forbes.com; ownership data available on Bloomberg Professional.
12 Bill Gates learned the hard way: after ten years of failing since entering China in 1992, it was not until Microsoft began cultivating a relationship with the CCP (including Bill Gates inviting President Hu Jintao for dinner in his Seattle mansion) – that it finally started succeeding (Kirkpatrick 2007). Or, as Intel's head of marketing says: 'You can't do too many investments in China that the government doesn't approve of. You might as well ask them [first]' (Kirkpatrick 2007).
13 Very briefly, the geopolitical interests of the US state are to ensure that no other state is able to challenge its capacity to project power over other states and shape world order. Both China and Iran are seen as regional geopolitical rivals – hence the restrictions on business with these countries. More on US power below.
14 For the best account of this aspect of American power, see Panitch and Gindin 2003; 2012; Panitch and Konings 2009.
15 And in fact, capitalization could be misleading when analysing state power. While Tim Di Muzio (2007) successfully points out the importance of US government debt in American state power, this does not apply to Japan: even though the Japanese state has been indebted at more than double the proportion of its GDP than the US for the past two decades, Japan has not conducted a single act of foreign policy since 1945 that has significantly opposed US geopolitical interests (Cumings 1999). Again, American state power is qualitatively unique. For example, we can say that the US deficit is a sign of immense power, whereas the deficits of Sub-Saharan Africa are a sign of weakness (Hudson 2003). A parallel statement in regards to capital is nonsensical: e.g., we cannot claim that Apple's debt is a sign of strength while Wal-Mart's debt is a sign of weakness, since capital follows a singular and quantifiable logic (whereas the state does not).
16 Also, various groups pressuring corporations to change their policies is nothing new: unions have been doing it since their inception. Unions crucially, however, also

pressure the state, and I believe this is more effective, as it has for example led to many of the state policies mentioned above that are in the interests of people at the expense of profit.

17 I borrow 'structural super-determinism' from Ralph Miliband (1970: 57), who coins it to critique Nicos Poulantzas' earlier – not later – work.

18 Even here, however, reality is more complex as the discussion above on SOEs demonstrates, and the reference to the interests of family ownership.

19 For example, time and time again when a left-leaning party is elected to government, it faces almost overwhelming opposition from various apparatuses of the state, from the judiciary to the military, from the bureaucracy to sub-national governments – this is the experience of the Green Party in 1980s Germany, the New Democratic Party in 1990s Ontario, Canada, Hugo Chavez in 2000s Venezuela, and many more.

20 Much, but not all, of the developmental state literature falls into this category.

21 Note that I use the term 'social forces' as opposed to Poulantzas' 'class forces' in an attempt to avoid class reductionism, and to fully encompass the litany of movements that are not necessarily a function of class (such as animal, environmental, ethnic, human rights, indigenous, sexual orientation and women's struggles – to name a few).

22 In *Capital as Power* there is no explicit rejection of the importance of the nationality of capital, albeit it is implicit in their exclusive focus on capitalization as a measure of power, and their rejection is explicit elsewhere (Nitzan and Bichler 2006: 66, 68).

23 In addition, I think the power of a firm is also related to its dominance in a particular sector, which, contra Nitzan and Bichler, is not necessarily correlated to its capitalization. For example, in 2011 China Mobile's capitalization is 1.45 times more than Citigroup's (Forbes.com), but I think Citigroup has much greater influence on the world's people – in part because the global provision of credit and vast global ownership portfolio has much greater impact on the world's people than the provision of cellular phones in Greater China. Or to put it differently, the collapse of Lehman Brothers in September 2008 triggered a global financial crisis affecting the lives of billions of people – it is difficult to imagine a similar scenario if China Mobile collapsed despite having a capitalization over 11 times greater than Lehman Brothers in April 2008 (Forbes.com). And note that while Nitzan and Bichler argue that it is no longer easy to classify firms by sector because of conglomeration (260–1), they not only themselves end up doing this (e.g. their 'weapondollar-petrodollar coalition': 392–4), but they exaggerate the extent of conglomeration. In 2011, the Forbes Global 2000 only lists 43 firms as 'conglomerates', whereas the other 1,957 firms have 50 per cent or more of their business in a single sector.

24 While the aggregate American profitshare relative to the world has declined from around 60 per cent in the 1970s to 30 per cent by 2009 (Bichler and Nitzan 2009: Figure 3), in 2011 American profitshare remains dominant in the advanced technology sectors: 90 per cent in Biotech, 86 per cent in Software and Programming, 82 per cent in Computer Hardware and Services, 78 per cent in Aerospace and Defence, etc. (my calculations from Forbes.com).

# 8 Differential accumulation and the political economy of power

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The idea that the purpose of political economy is to 'study the interplay of economics and politics in the world arena' continues to pervade the field of International Political Economy (IPE). According to a popular textbook of IPE:

> *Political Economy* has a variety of meanings. For some, it refers primarily to the study of the political bias of economic actions, the ways in which government policies affect market operations. For others, the principal preoccupation is the economic basis of political action, the ways in which economic forces mold government policies. The two focuses are in a sense complementary, for politics and markets are in a constant state of mutual interaction.
> (Frieden and Lake 1995: 1)

Nitzan and Bichler's book *Capital as Power* (2009) proposes to go beyond this dualistic conception of political economy.[1] At the heart of their approach is the insistence that traditional IPE has failed to integrate properly the concept of power into its analysis of accumulation. This, they argue, has generated logical and methodological problems that continue to undermine the attempt to grasp capitalism from the perspective of analysing power.

The importance of this intervention has often been underestimated in a field which prides itself for bringing politics into the picture, for many believe that they already problematize the world economy from the perspective of power. Yet, as Nitzan and Bichler show, this recognition of power often remains partial. Despite the vast critical literature on the structural power of capital over labour, accumulation continues to be discussed largely from an economic standpoint which emphasises abstract market forces. It is common, for example, to see scholars analyse the advance of capitalism as a process of liberalization setting the stage for the competitive forces of the market to operate. Against this idea, Nitzan and Bichler analyse accumulation through a political economy of control that is fully based on institutional power. Their work constitutes a profound challenge for the field and it merits more attention than it has received for it forces us to radically rethink the traditional categories of economics.

In this chapter, we take up Nitzan and Bichler's invitation to reflect on the idea of a political economy based on power. We agree with their proposition that the field of political economy has struggled to analyse accumulation in terms of power. Yet, it is the central thesis of this chapter that the new political economy proposed by Nitzan and Bichler falls short of a proper engagement with the phenomenon of power. For if power is rightly mobilized by the authors in order to explain the dynamics of the world economy, power itself, as a phenomenon, is not properly examined. Instead, power tends to be reduced to an independent variable which is used to explain other phenomena. Rarely subjected to careful social analysis, power is quantified and mostly used, as a concept, for the purpose of developing abstract models. The result is a linear and ahistorical conception of power which undermines the laudable aims of the authors.

The chapter is divided into four sections. First we examine the nature of the challenge set out by Nitzan and Bichler to the field of IPE. We show how their conceptions of sabotage and differential accumulation (see glossary) offer a useful critique of the productivist viewpoint of accumulation that pervades the field of IPE. Both concepts provide an important starting point for placing power at the centre of the analysis of accumulation. However, Nitzan and Bichler stretch these concepts in problematic ways as they elaborate their own framework. In the second section, we examine how the notion of sabotage becomes the template for conceptualizing capitalist power itself. As we show, the outcome is a reductionist conception of power which arbitrarily forecloses a whole set of social dynamics, such as production, which need to be included in the analysis of power under capitalism. In the third section, we expand the argument to discuss finance and the commodification of power. As we demonstrate, Nitzan and Bichler's conception of finance as a market which prices power leads them to reify power and can only offer a superficial solution to the dualistic treatment of politics and economics. Finally, in the fourth section, we delineate the key aspects of a 'relational' concept of power. In contrast to Nitzan and Bichler's emphasis on the unequal nature of capitalist accumulation (a quantitative difference) as the focal point of their concept of differential accumulation, we stress differences in social practices and the role of accumulation in validating certain practices over others. Approaching power relationally highlights the complex, and frequently opaque, operation of power in capitalism. Because social relations under capitalism are often based on contracts, they generally conceal the ways in which power operates. The real challenge for a political economy of power is thus to develop new methodological tools which can allow us to circumvent such obfuscations.

## Accumulation and the logic of capitalist power

The fount of Nitzan and Bichler's rethinking of political economy is an extended engagement with neoclassical and Marxian accounts of accumulation (Nitzan 1998; Nitzan and Bichler 2000; 2009). These traditional approaches often referred to production as the objective foundation upon which they could base their analysis of value and profit.[2] The political economy approaches of the eighteenth and nineteenth centuries had seen production as a good starting point for it represented the initial moment that sets in motion the process of accumulation.

While the neoclassical tradition sought to move away from this emphasis, they were also forced to return to production in order to ground the supply curve and the process of valuation on a solid base. In both cases, the objective was to show the origin of wealth by examining how it was produced. To ground this analysis, both approaches thus traced value back to the factors of production (labour and/or capital), and used this quantifiable reality in order to demonstrate 'scientifically' the points they wished to make. The result was a concept of value that was more or less naturalized as an objective substance. But having reified value as the objective measure of wealth, there was no conceptual space to bring the social into an analysis of its production. The social could only come into play when addressing the question of distribution and this is why debates often revolved around a question of exploitation (i.e. were various social forces getting what they deserved).

This idea that the production of wealth can be used to determine where value comes from is the central target of Nitzan and Bichler's critique. As they convincingly demonstrate, no such objective determinant of value can be convincingly established. They attack more specifically the notion that one can use the amount of capital or labour that is invested in production in order to explain the process of accumulation. Such a focus on production, or more specifically the inputs of production, is limited because it misses the role of power in shaping valuation. Indeed, it is one thing to produce a good, but it is quite another to sell it. If industry operated at maximum capacity everywhere and always, then accumulation would be threatened since an oversupply of goods would result in excessive downward pressures on prices and an inability to make profits. It is thus necessary, Nitzan and Bichler argue, to limit production. To them, limiting market competition is more important to the success of capitalists than producing efficiently.

In attacking the classic productivist perspective, Nitzan and Bichler wish to socialize the production of value itself. For them, wealth is itself a social construction.[3] Hence, political economy cannot be satisfied with focusing simply on the distribution of value. One must examine more fundamentally how value is socially produced: how it is generated through the exercise of power. The central idea here is borrowed from Thorstein Veblen's conception of production as an all-encompassing enterprise to which society as a whole contributes. According to Veblen, the production of wealth requires a whole set of processes which occur outside capitalist firms but nonetheless sustain production: family life, education, health care, transportation – in short the totality of society. Production is, in this respect, simply a dimension of broader processes of social reproduction, all of which contribute to the production of goods and services. However, if capitalist activity depends on this social reproduction, the key to the process of valuation cannot be people's 'contribution' to production, for this would involve everything. Instead, Veblen argues, capitalists can claim profits only because they are able to claim exclusive rights over what others contribute. In this regards, valuation is an issue of ownership.

This ability to profit from social reproduction, to capture a form of rent from its various processes, is represented most powerfully by the idea of industrial sabotage, a concept intended to highlight that value is determined by power rather than wealth, understood here in the form of goods and services. As they point out, the value of a corporation as reflected in its stocks frequently goes up when production capacities are being scrapped. The lay-off of workers, or the rationalization of industries with the closures of so-called inefficient plants, are often accompanied by rapid increases in stock prices. Similarly, mergers and acquisitions often see the capitalized value of the combined firms go far above the number reached by simply adding their previous respective values on the stock market. These examples illustrate that the ability to accumulate is not primarily dependent on the capacity of production or more specifically on *what is produced*. It depends much more on the power a firm can exert over the market. In other words, Nitzan and Bichler argue that value as measured by overall capitalization is an expression of power rather than efficiency. For them, this inversion is the hallmark of capitalism, a system which has come to rely on the ability of capitalists to contain efficiency and economic progress. From this perspective, power under capitalism is based on sabotage, for the ability to contain and limit production is central to the ability of capitalists to gain a significant margin of profit. By generating artificial conditions of scarcity, capitalists can sell commodities and services at greater prices and garner bigger profits. For this reason, Nitzan and Bichler view the modern corporation as the central figure of capitalism. It is, they argue, an institutional structure which has gained significant leverage to limit competition and mark up prices through the use of mergers and acquisitions, patents and other legal mechanisms.

The notion of sabotage, which highlights the foundations upon which accumulation rests, is tied to a second important concept which is meant to question more fundamentally the process of accumulation itself. Indeed, the problem is not only that political economy scholars have misunderstood the means by which capital is accumulated. They also fail to grasp accumulation itself, for it is not simply a matter of accumulating material wealth. Rather, the process of accumulation itself should be conceived as a struggle for power. To capture this, Nitzan and Bichler propose their concept of differential accumulation, which emphasizes that the objective of capitalists is not to accumulate *per se*, but to accumulate more than others in order to gain power (over others). The concept of differential accumulation thus challenges what we take to be the nature of accumulation. It opens the possibility of not only analysing accumulation as a product of power, but as a logic that is itself defined in terms of power.

These theoretical insights have enabled Nitzan and Bichler to develop a new approach to political economy that places power at the centre of the analysis. Particularly noteworthy are the range of novel quantitative statistical tools which they have developed in order to analyse accumulation from a differential perspective. These promise 'new ways of thinking, new categories, and new measurements' (3) to rescue the project of critical political economy. On this basis, Nitzan and Bichler propose 'a new, disaggregate accounting that reveals the conflictual dynamics of society' (5). It has generated fascinating hypotheses and surprising empirical findings, helping along the way to promote their central claim that profit and accumulation are not the product of competitive markets, but the outcome of market control. Yet, we argue that the opening provided by Nitzan and Bichler should itself be subjected to examination, for ultimately it fails to deliver on its promise.

## An economic conception of power

The limitations in Nitzan and Bichler's work largely stem from a desire to stretch a few key ideas in unwarranted ways. Take the idea of sabotage. It is an important contribution, which points to specific types of practices that are too often neglected. Yet it becomes misleading when Nitzan and Bichler decide to make sabotage the emblem of capitalist power.

As we mentioned, Nitzan and Bichler downplay the role of production in the capitalist process of accumulation. In particular, they minimize the importance of productive innovations as a strategy for empowerment. Profit, they argue, does not stem from efficient production, but from market power that reduces competition. For them, sabotage is the only way that owners can *make a difference*:

> Business is a power process carried out through the prerogatives of ownership. Owning per se is an idle act. It has no productivity and therefore no bearing on industry, either positive or negative. Owners of course can impact industry indirectly. But for this impact to be profitable it has to be negative. It is only by steering the development of industry in directions that are wasteful and harmful yet easier to control, or by strategically limiting its pace so that their own discretion doesn't become redundant, that profit can be earned. (239)

This proposition is justified on the basis that productive innovations, which enable capitalists to produce at lower costs, cannot provide a sustainable strategy for empowerment because they can be easily replicated elsewhere. Competitive imitation is thus bound to erode margins of profit for first movers unless capitalists have the means to stop others from doing the same thing. For this reason, Nitzan and Bichler argue that such innovations can only be used to *meet*, not *beat*, the average level of accumulation (365). They do not represent a strategy of differential accumulation.

However, one may wonder whether this understanding of the power that ownership provides is sufficient or adequate. For it essentially presents ownership as a passive, or at best a restrictive, force in relation to production. In other words, ownership is not *analysed* here as a relationship that is constitutive of capitalist relations of production. Even if Nitzan and Bichler do not deny that power exists at the level of production, this dimension never figures in their analysis.[4] In fact, one could argue that the notion that changes in production can be easily imitated only holds if one *ignores that power is an integral component of production itself*. While technological improvements can be indeed adopted by others, social relations of production are much tougher to replicate, and rely on complex social synergies that are held together by distinct structures of power. These are based on a precarious balance which history tells us is difficult to imitate. It took a long time for continental competitors to find a response to the innovations of English industry in the nineteenth century, and more recently, the attempts to replicate 'Toyotism' abroad, let alone in Japan, have shown that borrowing production practices is no simple matter (Streeck 1996). Most of the time, the results are very different from the initial model. The reason for this is that habits, traditions, regulations and other institutions all take part in a complex path-dependent development that is ridden with power relations and which leads producers down different trajectories. To simply transplant a practice to a different organization with its own dynamics of power is bound to produce different outcomes.

We argue that Nitzan and Bichler's neglect of production is not innocuous, for it perpetuates an economistic conception of power that remains surprisingly indebted to the discipline of Economics. After all, sabotage, conceived as the ability to limit competition and/or the 'pace of production', mirrors the classic economic understanding of power as monopoly rent. This concept was developed by economists in order to conceive of power as a function of supply and demand. It defined power as the ability of capitalists to ask for more than something was worth and was essentially the product of attempts by economists to conceptualize power in a way that speaks to their framework of analysis. From this vantage point, power is analysed in a narrow sense as a control over the *output* of production (something which affects the supply curve) rather than a control over the form of production or more precisely *how* commodities are produced (something which cannot be modelled).[5]

In this respect, Nitzan and Bichler's stance represents a step back from Marx because it essentially forecloses the significant field of power relations that is 'production'. Yet this is precisely the kind of abode which needs to be subjected to a political economy of power (Burawoy 1985). The point is not simply to show exploitation, but to grasp what type of power shapes the evolution of socio-economic activity under capitalism. That production should be analysed from the perspective of power, rather than exploitation in a classic sense, is a point well taken (Knafo 2007). However, there is no reason to think that competitive advantages that allow for greater mark-ups cannot be constructed through production. Even if productive innovations only procure short-term advantages, something which remains to be demonstrated, this does not mean that such advantages would be marginal or inconsequential. Otherwise, it would be difficult to account for the significant efforts capitalists put into constantly restructuring the organization of the labour process. It would be interesting, for example, to see how Nitzan and Bichler can explain the rise in the US of Fordism from their perspective.

Ultimately, it is never clear in the work of Nitzan and Bichler why one would have to decide between production and sabotage. One can accept that some limitations on production are necessary for profits to be made. Yet selling at a higher price because of low competition is only one side of the equation. Granted, the ability to mark up prices depends on the level of competition in a given market, yet costs are also significant. Indeed, the more cost effective a capitalist is, the more he or she will be able to generate a mark up and demarcate himself or herself from others in terms of profits. Hence, even if the overall output must be limited to some extent, the differential capacity of capitalists to succeed within these parameters will differ depending on the organization of their operations. There is no getting away from the fact that production, and more generally the organization of a corporation's activities, is a crucial aspect of valuation and the profits made by capitalists.

In reasserting the importance of production for the project of developing a political economy of power, our goal is not simply to show that Nitzan and Bichler underestimate the significance of production to the process of differential accumulation. *More importantly, we argue that this is vital to problematize what exactly is at stake in battles for the accumulation of power.* When answering the question of what is the goal of accumulation, Nitzan and Bichler come up with the straightforward, yet superficial, answer that it is all about power. Power, in other words, is both the means and the end of differential accumulation. This may be true in a narrow sense, but it provides a very limited and linear perspective on the development of capitalism. For it limits Nitzan and Bichler to a focus on the distribution of power rather than the form it takes.

We agree with Nitzan and Bichler that the objective of a political economy of power is to show how the success of capitalist practices is dependent on power, and not simply efficiency. But this political economy of power is not reducible to a question of distribution of ownership rights, as in the work of Nitzan and Bichler. Rather than focusing on who wins, we are interested in the practices that are promoted by those who succeed in accumulating differentially. In other words, a focus on production and more generally on the organizational structure of capitalist activity opens up the possibility to analyse what norms and practices of capitalist development are being developed and generalized through differential accumulation. For this reason, the nature of power struggles under capitalism cannot simply be reduced to a matter of accumulation. It involves broader conflicts over the types of practices and norms that are valued, legitimized or prohibited.

In this way we follow more closely Nitzan and Bichler's own injunction to conceptualize the production of 'the economy' from within society. From our comparative perspective, the objective is not to highlight how production helps capitalists to accumulate, but rather to invert the focus in order to determine how the ability to accumulate impacts on the forms of production and social activity which become dominant. If we accept that efficiency is not a linear variable, the type of efficiency that becomes valued is itself a contested issue. It depends on the regulations in place, on the forms of social organization in which production is inscribed, on the power relations which structure the activities of production and more generally on the form of capitalist competition. In that respect, capital accumulation is important because it validates specific norms (e.g. concepts of managerialism, norms of labour control) and practices (e.g. Taylorism, assembly lines, 'just–in-time' production) used by capitalists who succeed in their struggles to accumulate differentially (Knafo 2007).

By bringing these concrete considerations, one is not simply adding more details to the story that Nitzan and Bichler seek to flesh out. Rather, the objective is to redefine what we take to be the object of capitalist struggles. It is interesting, for example, to look back onto the campaign in the 1930s to regulate labour in the US. As Swenson (2004) has shown, big 'Fordist' companies played a significant role at the time in pushing for labour regulations. These companies were often forced to pay workers at a higher rate, partly because of the greater level of unionization amongst them. For this reason, they were keen to level the field by eliminating competitive advantages of smaller companies able to pay lower wages. Through measures to establish a minimum wage, for example, they could eliminate the comparative advantages of these other companies and make their own advantages in terms of productive efficiency count even more. From a narrow perspective, one may conclude that this represents another case of differential accumulation, but everything that is important about this case is simply lost if we make this assumption (i.e. how labour came to be regulated and how a Fordist framework of production was promoted).

One of the objectives of a political economy of power is thus to show how the success of capitalist practices is dependent on power, and not simply efficiency. But this political economy of power is not reducible to the control over output. Because differences in production create different types of advantages and vulnerabilities, capitalists struggle over a much broader range of issues than simply output. Hence, there is no reason to think that differential accumulation should be concerned mainly with output. It is precisely the promise of this conception of differential accumulation that we wish to recover, for this conception opens up political economy to a more radical problematization of power struggles than Nitzan and Bichler realize.

## Finance and the commodification of power

This discussion of production and sabotage leads us to the real focus of Nitzan and Bichler's work: finance. Their emphasis on finance stems from the idea that capitalism should be analysed as a totalizing logic of 'capitalisation' (9). Any phenomenon that affects the conditions for capitalization to occur is part and parcel of the capitalist mode of power.[6] Hence, even if production and finance should be treated as different facets of a single organic mega-machine, along with the state, Nitzan and Bichler deliberately place finance at the apex of this structure. Finance is 'the core of the capitalist regime' (7) because other developments are subordinated to the imperative of capitalization. Hence, the ultimate form of capitalist power is the ability to capture earnings based on ownership and sabotage and this is done primarily through financial assets which capitalize these future earnings.

While there is nothing wrong in itself with this ontological claim about the primacy of finance, it becomes misleading when Nitzan and Bichler use it to assign a distinct analytical role to finance and production. Indeed, each field serves a different purpose in their analysis. When it is time to explain the nature of capitalist power Nitzan and Bichler focus on production and the idea of sabotage. By contrast, finance enters the picture when the authors wish to chart and measure differential accumulation (accumulation of power). As a result, financial markets are not themselves subjected to the same register of analysis in terms of power. There is in fact little analysis in their work of the power structures that operate within financial markets themselves. Even when finance becomes a participant in the exercise of power, for example through mergers and acquisitions, the power exerted is located at the level of production. Finance itself is presented as a realm where power is valued and commodified, but the way in which power operates within this field (i.e. as something exerted over other financiers) is left unexplored.

In many ways, we should not be surprised by this contradictory treatment of finance because the forms of investments classically associated with finance do not conform to the logic of power as defined by the idea of sabotage. It is difficult to see how a conception of power based on artificially constructed scarcity can be applied in a field which has been awash with liquidity, and where so-called financial bubbles seem to correspond with rapid increases in supply rather than the opposite. *Pace* Nitzan and Bichler, these increases in supply seem to correspond not to the ability of financiers and fund managers to exclude others from claims on ownership. On the contrary, they seem to benefit from their ability to inflate the value of existing claims by *including* more participants (Knafo 2009; cf. Seabrooke 2001). The speculative dimensions that characterize stock markets or housing markets revolve around very different dynamics to sabotage even if one can still find forms of differential accumulation here.

This incongruity may explain why there is little analysis of power within finance. Instead, Nitzan and Bichler present finance as a market which is *most efficient* in pricing and commodifying power established at the level of production. This effectively amounts to a displacement of the 'economics vs politics' duality to a new, and no less problematic, location. Politics, or power, is now associated with production, while the logic of market competition depicted in Economics now becomes linked to finance. If there is a 'solution' in Nitzan and Bichler's work to the duality of political economy, it is mostly a matter of definition that is reflected in their decree that capital *is* power. Having conflated both, Nitzan and Bichler can thus proclaim that they overcome the problem because accumulation is now seen as an economic and political process at the same time. In short, the accumulation of wealth is an accumulation of power. Yet this apparent resolution is misleading. For when we break down their template, a similar duality emerges. In the first step of their analysis, which is focused on production, they show how markets are distorted by power and thus that economic competition never operates properly at this level. Yet their second step, now focused on finance, brings back the ideal of the competitive market in the form of efficient financial markets 'pricing' power through what is essentially a process of supply and demand. As people trade to get the most profitable financial assets, understood here as the assets most imbued with power, financiers end up comparing various forms of power in terms of capitalization. This represents once more an 'economic' moment for it is market competition here which does the valuation and which enables these financial assets to be priced 'properly' in terms of the power they represent. Once more it is market efficiency, this time of financial markets, which becomes the operative concept.[7]

This re-articulation of a market logic at the level of finance is most clearly demonstrated in their key contention that power is now commodified. In many ways, this idea of the commodification of power represents the logical conceptual denouement of their economic conception of power. For having reduced power struggles to an issue of sabotage which can be quantified in terms of its capacity to control output, it is only a small step further to argue that power can be valued and thus sold. Such a thesis may appear alluring at first, for it is difficult to deny that control over financial resources has become a central channel for power. Nonetheless, the concept suffers from a lack of clarity. As is often the case, the notion of commodification creates linear relationships in the way we conceptualize social reality which tend to close off rather than open the conceptual space needed for examining how capitalism is socially constructed. As we will argue, what seems deceptively obvious at first (i.e. financial accumulation has become a source and an expression of power) only conceals questions of greater interest to critical political economists.

Let us breakdown this idea a bit to clarify Nitzan and Bichler's claim. The idea of commodification suggests the production of units that are constructed for the purpose of being sold. On this account, one could make the argument that the rise of the corporation and stock markets has become a means to commodify power, for shares clearly provide a form of power which fits well with Nitzan and Bichler's emphasis on sabotage. Yet it rapidly becomes apparent that they have a broader conception in mind. For their claim is not simply that some forms of power can be purchased as commodities, such as the ownership rights that are associated with shares. More fundamentally, they wish to show that power itself has become a commodity. As financial markets compare different entities and price their respective power (i.e. their ability to create differential accumulation), they are effectively levelling the field. Qualitative differences are thus erased as power becomes commodified in the form of various financial assets which can be compared on a single quantitative scale (expected future earnings). Because power is now reduced to a quantum, they argue, it is made fungible and capitalists can now take part in different forms of value extraction by rapidly moving from one investment to the other, depending on which one is the most profitable/empowering.

This proposition constitutes an ironic twist in their argumentation because the type of reasoning which they dismiss in the works of neoclassical economists and Marxists is now deployed by Nitzan and Bichler themselves to analyse power. As we pointed out, they criticize classical conceptions of capital for failing to specify utility or labour time as variables that can be identified independently from the prices they supposedly determine. According to them, these 'productivist' approaches rely on frameworks of analysis that are impossible to test because they conflate underlying values (utility or labour time) with the prices they are supposed to explain. As Nitzan and Bichler correctly point out, these theories are ultimately based on an act of faith and are irrefutable. Yet in a curious turnaround, they make the exact same leap of faith when they argue that power is commodified, for here once again we have no way to determine the magnitude of power apart from the very process of valuation that power supposedly determines. In short, Nitzan and Bichler do not hold themselves accountable to the analytical standard they impose on others.[8]

Why do they fall into the same trap? Essentially, Nitzan and Bichler commit the cardinal sin of equating valuation with the quantification of an underlying substratum, in this case power. The conflation stems from a common misunderstanding about prices. Too often, we assume that prices reflect an underlying value that is translated in quantitative terms rather than an outcome of social interactions on markets that can take very different forms. Prices are not a representation of something else or a symbolization of a reality which stands behind them (e.g. 'labour values', 'utils' or 'power'). They are the outcome of the various pricing strategies that people adopt in a competitive context. These strategies are shaped by various considerations defined in terms of power and will reflect a broader institutional and social context. But they are not a reflection of an underlying substratum that would be 're-presented' in quantitative form (i.e. as a price).

This was the problem that beset classical political economy. For in seeking to determine what was expressed in a price, political economists had to fall back on labour as the underlying substratum of value. For neoclassicists, it became utility. Both of these traditions, as demonstrated by Nitzan and Bichler, failed to grasp the radical gap between quality and quantity when they addressed the difficult issue of value (see Knafo 2007). By positing that quality (e.g. labour or subjective preferences) was reduced to quantity (e.g. labour time or utility), they were forced to employ reductionist templates which were bound to be inconclusive for there is no way to trace back a given quantity to such a supposed underlying substrate. Nitzan and Bichler deploy this critique to great effect when discussing the orthodox labour theory of value. As they argue, following Böhm-Bawerk, there are so many variables which influence production that it is not clear why labour time should be singled out as the sole determinant of value (91). Yet, one can apply the same critique to Nitzan and Bichler's conception of the commodification of power. To say that people are willing to pay more for a company which has more power is completely different from saying that the prices are proportionate to this power – a claim that cannot be established precisely because power is not a linear and discrete phenomenon which lends itself to quantification. There is simply no such thing as a basic unit of power.

To illustrate this, one can take the example of government bonds which Nitzan and Bichler take to be the first form of quantified power, one which was underpinned, they argue, by the power of governments to tax (294–5). This power to tax is only one of many aspects which influence the value of bonds. Beyond the ability to raise revenues, there are various other considerations which will impact the ability of a government to manage its public finances: the capacity to have an efficient administration, to cut spending, to create new financial assets which facilitate long-term credit or even the ability to influence people's perception of its own credit. As we start adding these new dimensions, our account appears increasingly pedestrian for we are bound to conclude that what is valued is simply the perceived ability of a government to meet the terms of the contract. Trying to identify what prices represent is bound to lead us down a trivial path. From this angle, bonds will end up appearing very similar to their conceptualization in mainstream accounts. More important are the forms of socialization which govern these markets, yet this is mostly taken for granted in Nitzan and Bichler's work on finance.

Ultimately, the idea of a 'commodification of power' closes a loop in the reasoning of Nitzan and Bichler which allows them to treat power in quantified terms. It helps to excise a complex social reality on the grounds that power has become quantifiable and fully fungible. According to this logic, one is now licensed to treat power as something that can be accumulated *even if there is a great variety in forms of power*.

## Taking power seriously as a social relation

In the previous sections, we have argued that the concepts of sabotage and differential accumulation demonstrate the need for a political economy of power, but that they do not provide in themselves the required framework. These notions constitute a starting point for problematizing power, not a template to analyse it. In this section, we want to highlight more specifically what is at stake in constructing such a political economy of power. At the heart of this question lies the purpose we ascribe to power as an analytical category. In the work of Nitzan and Bichler, the emphasis on power is defended on ontological grounds. Power, they argue, should be the focus because it is the main determinant of capitalism and more specifically of the dynamics of accumulation. By using power as an analytical category, they wish to capture the ontology of capitalism. While we share the concern with power, our aim is different. We see the development of a political economy approach based on power as a *methodological* project. It is meant to highlight ways by which we can analyse power under capitalism, not as a theory of accumulation *per se*. For we see power as a multifaceted phenomenon that is always evolving, and the problem is precisely to grasp how it is socially constructed *in different ways* throughout the history of capitalism.

One way to convey the difference between both projects is to come back to Nitzan and Bichler's assertion that power is both a thing and a social relation. According to them, power has been commodified with the result that the social relation of capital is now embodied in a material form (money or financial assets). This amounts to equating wealth with power. Having done so, they can now refer to capital in its material form *as if it was itself* power. This enables them in turn to quantify power and treat it as an independent variable that can be used to explain other phenomena (crises, wars, etc.). It effectively objectifies power as a tangible reality that we can measure in order to analyse the world economy. But this conflation of power and capital is only effective so long as it closes off the analysis of power itself. At best, the study of differential accumulation charts whether power is becoming more or less unequal, but it says little about what *form* power takes and how it evolves. Defined initially through the concept of sabotage, it is subsequently more or less taken for granted.

It is interesting to compare this position with Marx's conception of capital as a social relation, for both arguments are similar in their broader outlook. Indeed, both approaches emphasize that capital is not merely accumulated wealth that is brought to the process of production, but represents a social relation defined in terms of power. By contrast to mainstream theorists who generally treat capital simply *as a thing*, Marx, along with Nitzan and Bichler, seeks to highlight the social relation that lies behind the material embodiment of capital. However, the similarities at this ontological level conceal an opposite methodological approach. For Marx, the point in showing the duality of capital is to demonstrate that the material support of capital (i.e. means of production) has no *significance* apart from the social relations it articulates. For this reason, it is necessary to go beyond capital in its material form in order to understand the significance it has in a given context. Whereas Nitzan and Bichler make the ontological claim that capital represents a relation of power, Marx puts forward the methodological claim that treating capital as a thing is misleading. He exhorts us to look beyond the objective façade of capital in order to problematize the *significance* of what we observe for it is never as obvious as it appears (Knafo 2002: 158–60).

This comparison helps to specify the limitations in Nitzan and Bichler's political economy of power. For they may be aware that power *is a* social relation, but their approach does not allow them to analyse power *as a* social relation. This may appear counterintuitive, especially since Nitzan and Bichler clearly state the importance of the capitalist *nomos* as originating within society, and not from without (150). In contradistinction to orthodox economics and 'value theory' Marxism, both of which identify 'objective laws' of the economy, Nitzan and Bichler expressly articulate the *social* and therefore *relational* nature of economic processes: 'there is … no obvious reason why human beings would have to obey any "objective" law based on' utils or abstract labour. But this relational conception of power is really a singular depiction of the *unequal* nature of accumulation. Consequently, while they are apt in suggesting one *specific* relation of power (in the abstract) they formalize this relation in ways that undermine their aspiration for a non-determinist approach to capitalism.

Missing from this analysis are the concrete agents themselves and the way in which they relate to one another. Nitzan and Bichler's framework is built in such a way as to allow them to abstract from actors and their concrete struggles. Because they are keen to focus on systemic features of capitalism, they simply posit a fundamental divide between so-called dominant capitalists and the rest of society. According to them, it matters little who belongs to each group because capitalism does not depend on the success of specific actors. Instead, it is only important that a group of dominant yet interchangeable capitalists can secure greater rates of accumulation than the rest of society.

In contrast, we argue that differential accumulation cannot be analysed in abstraction of *concrete* actors and their specific context. On its own, the idea of differential accumulation is an empty shell. In fact, if one was to follow it to the letter, it would lead us to an atomistic conception of capitalism depicted as a struggle of all against all. Yet, of course, this is a conclusion that Nitzan and Bichler do not wish to adopt because it would deprive them of a threshold to ground their social analysis of differential accumulation. After all, for one to measure differential accumulation there must be a reference point to make comparisons possible. And so they have to come up with a loose demarcation of two groups that allows them to ground their study of differential accumulation. But why should one conceive of power struggles under capitalism along these lines? Why argue that it is only the difference between these two groups that matters? This is a difficult question, which Nitzan and Bichler cannot solve easily. As they recognize themselves, there are no clear dividing lines to differentiate the dominant group of capitalists (315). In fact, it would be just as legitimate to draw a number of tranches depending on whether capitalists belong to the 1 per cent, the 5 per cent or 10 per cent richest, or any other demarcation, when analysing differential accumulation. One could also decide to analyse differential accumulation *within* economic sectors. After all, if it is a matter of power, the real concern of capitalists is the power of their competitors not the power of capitalists who operate in a completely different sector. Alternatively, one could posit that differential accumulation gains in intensity towards the upper echelons of the capitalist economy for what is at stake becomes greater as we move towards the top. The bigger the capitalists the more risks they pose for their competitors because they have more means to discard competitors through financial or political means. So one should then look at differential accumulation *within* the 1 per cent or 5 per cent richest. As these examples highlight, it is not clear that we can accept the basic division of society into two groups as the meaningful vantage point to analyse differential accumulation.

To elaborate more concretely on the limitation of this political economy approach to power, it is useful to look at Nitzan and Bichler's work on energy conflicts in the Middle East. This represents an interesting case for there is a real attempt here to discuss the fortune of specific actors (i.e. those of the Weapondollar-Petrodollar coalition) (see for example Bichler and Nitzan 1995 and 2004). For this reason, one finds here more interesting insights into the dynamics of differential accumulation than in their more general discussions of Western capitalism based on dominant capital (see glossary) in general. The strength of this work consists of the way in which it traces the evolution of specific sectors and their historical successes in accumulating differentially. Yet one of the striking features of these contributions is the virtual absence of power as an object of study. This may appear surprising at first because it runs against the claims of the authors, but it becomes apparent once we try to specify what exactly they tell us about the power of the corporations that make up the Weapondollar-Petrodollar coalition. Dissecting the argument, one is left with a general proposition that energy conflicts tend to occur precisely when the Weapondollar-Petrodollar coalition sees its differential accumulation decline. Whether this is true or not, remains debatable (see for example Selby (2005) for an interesting critique of this analysis of energy conflicts). The key point is that there is no analysis of power. Nitzan and Bichler say nothing about how these corporations use their resources in capital and very little about the strategies they adopt to generate profits (or even more specifically conflicts in the Middle East). How, for example, are they changing the weapon or oil market? What are they doing about their competitors? Are they changing practices of production or even their corporate organization? There is no discussion of how successful they are in achieving their aims beyond the fact that they managed to raise their rate of differential accumulation. Was it of their own making or were they simply beneficiaries of a cycle of violence in the Middle East? Whether it is plausible or not that these corporations are involved in these conflicts is not the issue. The point is that all this remains implicit. Nothing is said about who these companies seek to influence or constrain and what method they use. Ultimately, everything that concerns power *as something that is exercised in the context of a social relation* remains outside of the analysis and is merely suggested by the correlation that Nitzan and Bichler emphasize. At most, Nitzan and Bichler offer circumstantial evidence that suggests that power may have been a motivation behind *whatever it is* that these companies did. But the reader is left with the unenviable task of filling in the blanks.

The power struggles that are involved in the processes of differential accumulation must themselves be subjected to historical analysis. They cannot be taken for granted as a starting point for analysing differential accumulation. There is little for us to gain by theoretically cementing the form capitalist competition takes in advance of historical research. Doing so leads us to miss the qualitative changes in the strategies of the actors involved, and therefore the constantly shifting terrain of politics. Because differential accumulation can be generated in various ways, one can presume that the path taken will impact specific capitalists in different ways. If this is so, it is no longer clear why dominant capitalists should see eye to eye when it comes to governance. On the contrary, differences in organization, strategy and interest will necessarily set capitalists against one another, even if they may all seek differential accumulation. When neglecting the agents involved, we are left with a reductionist template of politics under capitalism. This fails to capture the complex set of political imperatives which shapes capitalism.

Ultimately, the real potential of this notion of differential accumulation cannot be unlocked if we abstract from the concrete practices of power employed by *specific* capitalists. We would be hard-pressed to find capitalists who consider differential accumulation in the abstract. Fund managers, for example, worry much more about the benchmarks set by their competitors, than those established by capitalists who operate in distant fields (e.g. car makers or shipping companies). Nitzan and Bichler make a quantum leap when using specific benchmarks employed by some capitalists – ‘the Scotia McLeod 10 year benchmark,’ or the ‘Reuters/Jefferies CRB Commodity Index’ – in order to assert the existence of a ‘Global Benchmark in the abstract’ (309). They can only do so because they have presupposed the universality of pricing power. However, as we have demonstrated in the previous section, the concept of commodification enabling this proposition is highly problematic.

The template offered by Nitzan and Bichler makes it difficult to account for the relational dimension of power. It casts *struggles between dominant classes outside of the analytical framework and largely underestimates the role that subordinate groups play in the development of capitalism*. Instead, power is treated as a commodity that is possessed rather than a relation that is negotiated. By stating that 'capital accumulation and the changing power of capitalists are one and the same' (312) Nitzan and Bichler effect a closure which takes the idea of differential accumulation to a new level. It is no longer simply a proposition which helps to frame the study of accumulation in terms of empowerment (i.e. to highlight how capitalists strive to accumulate more than others in order to gain in power). Differential accumulation becomes a self-referential concept which is not only explained with reference to power, but explains empowerment itself. In this circular logic, people accumulate more to gain power, but this power is nothing else than the ability to accumulate differentially. In their words, power is both the means and the ends.

By insisting that social relations should be taken seriously in any analysis of power, we wish to put the emphasis back on the relational aspect of power. It is one thing to accumulate resources which can be parlayed into relationships of power, and another to gain power. In Nitzan and Bichler's work, this link is never problematized, as if those with capital are necessarily imbued with agency, or an ability to act and exert power. By conflating wealth and power, they erase the fundamental question of the way in which power relations are constituted. Ultimately, the power that is provided by capital is not something given, it evolves constantly and the terms of this evolution are the real puzzle of political economy. In seeking to develop a political economy of power, we argue that one must radicalize the project initially opened up by Marx. For the real difficulty in a capitalist society which is based on contracts and grounded in an ideology of freedom is to grasp how power operates. To do so, one should not reify this phenomenon by predefining what capitalist power is, but develop the methodological tools to problematize how power evolves and what difference it makes.

## Conclusion

Nitzan and Bichler's 'power theory of value' is undoubtedly an advance for political economists. With their meticulous attack on the intellectual foundation of neoclassical economics and the (orthodox) Marxist labour theory of value, they have demonstrated that IPE has generally failed to problematize processes of accumulation from the perspective of power. The promise of Nitzan and Bichler's account of differential accumulation is partly that it helps reconceptualize accumulation. Not only is it generated by differentiated strategies which allow some capitalists to mark up more than others, but accumulation is pursued in relational terms because of what is at stake in the pursuit of power. By highlighting the fundamentally *relational* nature of accumulation, Nitzan and Bichler open the door for a new form of political economy which transcends the reifying templates of Economics.

However, this important foray remains marred by Nitzan and Bichler's desire to construct power as an independent variable which can be used to explain social processes such as financial crises, wars, etc. This quantitative treatment of power forces them to close off the very opening they provide and makes it impossible to analyse power itself in relational terms. Indeed, such a generalization can only work if the social relations inscribed in capital are assumed to remain fixed and if the agents involved are omitted. Hence, in Nitzan and Bichler's work, the thesis about differential accumulation is a prelude for an overly economistic analysis of power which loses sight of its social and historical character. Treated as a quanta, power is flattened and decontextualized to the point where the theory has very little to say about it. If Nitzan and Bichler show that accumulation is always about power, their historical analysis of capitalism offers little insights about power itself.

By contrast, we argued that it is necessary to take power as a social rather than economic category for the crucial issue is not that power is accumulated, as if it was an object, but that it establishes social relations imbued with features that are not transparent to the agents involved or to the people who seek to interpret them. In other words it is the significance of these power relations, the features that define them, which is of importance to political economy, not the fact that there is power *per se*. This requires that we take seriously the fact that power is a social relation, for the notion of power loses its significance when it is analysed in abstraction from the concrete agents exerting it. In abstraction of the concrete context in which it operates, power becomes an amorphous force which is conceptualized in a circular way as the cause and effect of the logic of accumulation. To go beyond the trivial conclusion that power breeds power, it is important to flesh out the social relation that is capital as a historical construction, and take seriously the context which frames the pursuit of differential accumulation.

## Notes

1 Hereafter, all page numbers are from this text unless otherwise noted.

2 It is important to highlight here that there is a great diversity of Marxist approaches which are too often conflated in Nitzan and Bichler's critique. While we agree with them that those who use the labour theory of value often fall into a productivist approach which suffers from the problems identified by Nitzan and Bichler, we disagree with the idea that Marx's approach was defined by this identification of labour as originator of value. For more on this see Knafo 2007: 89–90.

3 This is evident from the authors' foundational theoretical declarations in relation to their orthodox and radical interlocutors. Nitzan and Bichler argue that their critique of the 'objective determinations' of value:

> does not imply social chaos. Far from it. Society is not a formless mass and its history is not a mere collection of accidents. There are rules, patterns and a certain logic to human affairs. But these *socio-historical structures are created, articulated and instituted not from the outside, but by society itself*. They are manifested through religion, the law, science, ideology, conviction, habit and force. Although embedded in the physis, they are all creatures of the nomos. Whether imposed by rulers for the

sake of power or crafted by the demos for their own happiness, *they are all made by human beings*.'

(150, emphasis added)

4 Nitzan and Bichler do recognize that 'every bit of the industrial process is touched by the hand of power' (223). But if power is important to production, does this not undermine their emphasis on sabotage? For disparities in power will mean that capitalists do not have the same abilities in cutting costs and shaping production.

5 See Nitzan and Bichler: '[absentee] ownership, says Veblen, doesn't contribute to industry; it merely controls it for profitable ends. And since the owners are absent from industry, the only way for them to exact their profit is by "sabotaging" industry' (16).

6 Cf. Nitzan and Bichler's claim:

> As we see it, the legal-organisational entity of the corporation and the network of institutions and organs that make up government are part and parcel of the same encompassing mode of power. We call this mode of power the *state of capital*, and it is the ongoing transformation of this state of capital that constitutes the accumulation of capital.'
>
> (8)

7 One of the claims which supports their thesis is their intriguing demonstration that the capitalization of a firm is correlated to the earnings of its shares. This certainly deserves consideration but it does not help to ground power itself as a commodity. In this sense, what exactly earnings represent still remains to be determined.

8 This point is raised by Andrew Kliman (2011) in an exchange with Nitzan and Bichler which was published in the *Journal of Critical Globalisation Studies*. For Kliman, who is interested in defending Marx's labour theory of value, this objection serves to show that Nitzan and Bichler proceed in the same manner as Marx. In short, Nitzan and Bichler cannot reject his theory on this ground for they themselves proceed in the same way. However, we believe in contrast to Kliman that this problem is more fundamental and invalidates both the labour theory of value understood in its classical form (see Knafo 2007) and Nitzan and Bichler's quantification of power. Unfortunately, Nitzan and Bichler simply ignore this important critique in their lengthy response to Kliman and have yet to address this crucial issue (Bichler and Nitzan 2011).

# 9 From provocation to interrogation

## The global political economy of the 1%, exploitation and the unfashionable problematic of 'capital' in IPE[1]

*Tim Di Muzio*

The contributions in this volume have all engaged in one way or another with the new framework of capital as power introduced to political economy by Nitzan and Bichler. We anticipate that they are only the opening salvo as capital and capitalism come under greater scrutiny and political economists continue to grapple with the implications of a novel theory and what it has to offer their field of inquiry. In this chapter, I want to explore some future avenues for research by focusing on at least three series of interrogations raised by the capital as power framework. These interrogations are certainly not the only way of proceeding but I think they point to major ways in which the theory can continue to be engaged by scholars interested in discovering and transforming the world anew. First, could the capital as power framework contribute to a political economy of the 1%? Second, since accumulation is not a narrow offshoot of production but a broader social process constituted and reconstituted by shifting relations of differential force, how might we conceive of exploitation and a practical or philosophical justification for resistance to what Nitzan and Bichler see as a new mode of power (see glossary)? Third, whilst the concept of 'capital' was at least problematized by the field of Economics, so far International Political Economy (IPE) has largely taken the concept as self-evident.[2] In fact, in many ways it could be said that 'capital' gets smuggled into IPE from neoclassical economics and Marxian political economy without serious reflection. But can IPE offer convincing studies of 'capital-*ism*' and its surrounding institutions without the vital concept of 'capital'? Below I take up these lines of inquiry in sequential order, make points of contact with the chapters in this volume where appropriate, but try to avoid definitive statements or conclusions that could close off debate unnecessarily. I make no general argument in this chapter, but I do introduce particular arguments in each section. These are my own views after some considerable reflection and do not necessarily reflect the thoughts and opinions of my colleagues in this volume or Nitzan and Bichler.

### The global political economy of the 1%

Towards the end of 2011, a relatively spontaneous movement of concerned activists occupied major financial centres and cities around the world.[3] Incited by a magazine critical of rampant consumerism – *Ad Busters* – and organized under the banner 'Occupy Wall Street' and 'We are the 99%', these global activists aimed 'to fight back against the richest 1% of people that are writing the rules of an unfair global economy'.[4] It is perhaps no surprise that the movement comes on the heels of a global financial crisis precipitated by high oil prices and widespread financial fraud, fiscal crises and austerity measures in various countries of the European Union and a global food crisis that helped spark the Arab Spring (Byrne 2012). But while these immediate events may have directly contributed to the Occupy movement, it is part of a longer historical lineage of resistance to capitalist relations of force and other battles that struggled against illegitimate forms of power such as absolute rule, patriarchy and slavery.

Before considerable police repression – particularly in Oakland and New York City's Zuccotti Park – the Occupy Wall Street movement shed a spotlight on the mass redistribution of wealth from the majority of ordinary workers around the world to a tiny fraction of the global population referred to as the 1%.[5] The redistribution of income to owners of income-generating assets is of course nothing exceedingly new, but there is a common sense mood that over the last 30 years something has gone horribly wrong for ordinary working people in the Global North and South. It seems that the combination of greater capital mobility, the collective power of institutional investors and the fall of the Bamboo and Iron Curtains significantly increased the pool of available workers for capitalist firms (Helleiner 1994; Harmes 1998; 2001; Freeman 2010). The result was an intensified competition for wages and a declining wage share in countries of the OECD as new producers entered the paid labour force (Lubker 2007). This shift in power relations has ushered in greater economic inequality with expectations about the future and opportunities for social mobility appearing to have worsened. Such a situation is not helped by the legion of advertisers and marketers who promote material desire, a lifestyle of self-actualization through consumption, and general feelings of individual and cultural inadequacy.

Yet despite this general sense and recognizing that there are a few popular studies on the global rich, we still do not have a critical global political economy of the 1%. Indeed, Susan George noted that we already have forests worth of reports on the global poor but 'still lack sufficient knowledge of those who make the decisions that affect countless lives' (2010: 83). As early as 1976 she implored researchers to:

> *Study the rich and the powerful, not the poor and powerless* … not nearly enough work is being done on those who hold the power and pull the strings. As their tactics become more subtle and their public pronouncements more guarded, the need for better spade-work becomes crucial … Let the poor study themselves. They already know what is wrong with their lives and if you truly want to help them, the best you can do is to give them a clearer idea of how their oppressors are working now and can be expected to work in the future.
>
> (2010: 82, emphasis in original)

In other words, research on the global mega-rich could help denaturalize the current order, expose the machinations of wealth appropriation, animate struggles and point to possible alternatives. And it is here where Nitzan and Bichler's theory that capital is commodified differential power might have something to offer a critical political economy of the 1% and meet George's largely unheeded call. To be clear, my argument is not that Nitzan and Bichler offer a theory of the 1%, but that their framework may contribute to such a study of the high net worth individuals that populate the globe.

The authors argue that their approach to capital does not offer a general theory of society but a comprehensive account of how the everyday practices of capitalists shape and reshape our world through the logic of differential capitalization (see glossary) and accumulation.[6] However, they conceive of capital as a mode of power, and this seems to preclude their analysis from offering a strict political economy of the 1% – particularly since they focus on dominant capital – or the institutions of accumulation rather than on owners per se. Yet, since for Nitzan and Bichler a tiny fraction of the global population has the power to create and recreate order in significant ways that shape the terrain of social action for the 99%, we might think about the ways in which their theory can contribute to a more comprehensive study of the owner/investor as the dominant political subject of our time (Gill 2000). To be clear, I am not suggesting that the 99% have no agency and have no role in shaping and reshaping the terrain of social reproduction as they are deeply intertwined in the very processes of capitalization that rule them. My claim is rather that what gets produced, consumed and reproduced in our societies is largely imposed upon the 99% by governors, institutional investors and corporate decision-makers at the highest level. For example, consider a corporate-owned grocery store run for profit. What is available for purchase in the store is not an individual or democratic decision of the community but a function of corporate decisions about the wealth of the community and the individual consumer choices made in the grocery store as they pertain to generating profit, not livelihood or choice. It also involves the way food is regulated by government policies – policies that are significantly influenced by global agribusiness and the firms in control of the food supply. There is of course little doubt that consumers can boycott a product in the grocery store causing it to be unprofitable for the shop to carry the product but that does not change the structure of power that imposes a particular range of choices on consumers (Patel 2007).[7] So while a dialectical understanding of social life should recognize the relations of force from below, we should not delude ourselves into thinking that social action is always transformative in a significant or even progressive way. We not only exist in webs of circulatory power as those who follow Foucault might have it, but in hierarchies of power and domination. For instance, Chapter 5 of this volume by Cochrane and Monaghan suggests that while global activists can have some impact on the exercise of corporate power, the degree of that impact could be limited by corporate counter-strategies.

Nitzan and Bichler have already gone a long way in their research to investigate the qualitative and quantitative dimensions of differential accumulation (see glossary) as it pertains to what they call 'dominant capital' or those firms with the highest levels of capitalization and the government organs that facilitate their accumulation. In their words:

> To study the rationalist order of capitalism without quantities is like studying feudalism without religion, or physics without mathematics. According to Marx, and here he was right on the mark, capitalism, by its very nature, seeks to turn quality into quantity, to objectify and reify social relations as if they were natural and unassailable. In this sense, a qualitative theory of value *necessarily implies* a quantitative theory of value; it means a society not only obsessed with numbers, but *actually shaped and organized by numbers*. This organization is the architecture of capitalist power. To understand capitalism therefore is to decipher the link between quality and quantity, to reduce the multifaceted nature of social power to the universal appearance of capital accumulation.
>
> (Nitzan and Bichler 2009: 124, emphases in original)

Their analysis of global accumulation has led them to the conclusion that mergers and acquisitions as well as stagflation are the two most sought after routes to accumulating more power, symbolically represented in monetary units. Both strategies, however, run up against significant barriers. The strategy of mergers and acquisitions is limited by the availability of takeover targets as well as government regulation as it pertains to competition policy. Stagflation – or reducing capacity output and increasing the price of goods and services – can operate for a time but eventually it can create so much social damage that this strategy risks significant social resistance and thus accumulation. In their most recent work, the authors consider whether or not dominant capital is reaching the limits of its redistribution of income (Bichler and Nitzan 2012). The relations of force here are twofold: capitalists attempting to redistribute income from themselves – an intraclass struggle – and capitalists trying to redistribute income from everyone else to themselves. The former relation of force is limited by the possibility of capturing additional income streams from existing capitalists. The latter is limited by the potential for working class resistance to wage suppression and the increasing burden of debt – particularly high interest rate credit card debt. Moreover, as Marx recognized long ago, capitalists shoot themselves in the foot as low wages and tapped out access to credit result in low effective demand and a likely drop in profitability as the economy slows. However, since accumulation is differential, not all capitalists will experience the same drop in profitability, leaving certain capitalists to accumulate more relative to their peers and relative to the income of other groups in society.

However, these insights can be complemented by additional research on the global political economy of the 1% that does not focus narrowly on redistribution and patterns of differential accumulation – as important as they are. Instead, research could focus on a broader analytics and cultural political economy of the 1% from both a regional and global perspective. Questions that might be asked include: How is it possible to identify the global 1%? What are their tactics, technologies and strategies for accumulating ever more wealth? What are the key strategic institutions that support this appropriation from society and how has the culture of conspicuous consumption changed over time since Veblen [1899] (2003) first discussed it at the end of the nineteenth century?

## Exploitation and the capitalist mode of power

According to the *Oxford English Dictionary*, the term 'exploitation' entered the English language from French as late as 1803. The origin of this word stems from the French verb 'exploit', which originally meant 'to accomplish, achieve, execute, perform or to fight'. In 1803, exploitation meant 'the action of exploiting or turning to account' or 'the productive working or profitable management' of something like a mine or cattle.[8] But by 1844, exploitation took on a new meaning: 'the action of turning to account for selfish purposes' or perhaps more directly, 'using for one's profit'.[9] Thus in the first half of the nineteenth century, exploitation, profit and selfishness became interlinked in the English language. But however wide the circulation of the term 'exploitation' might have been, it does not feature in the main works of classical political economy by Smith, Ricardo and Malthus. It was Karl Marx who used the concept of exploitation as the main pillar to explain the accumulation of capital and the need for working class revolution. To recall from Chapter 1 of this volume, Marx, like Smith and Ricardo before him, used a labour theory of value to explain the generation of surplus and argued that the source of this – recorded as profit – was unpaid labour. The capitalist, being in a strategic position to offer potential producers paying work, always paid them less than the value of the goods they created during the production process. This is largely what made Marx such a fierce critic of capitalism but it also locked Marxian political economy into explaining accumulation solely by relying on labour in the production process, creating a dangerous division between 'productive' and 'unproductive' workers.[10]

But if, as Nitzan and Bichler argue, the labour theory of value cannot convincingly account for the generation and accumulation of profit due to its narrow focus on production and the labour process, then 'there is no objective basis to condemn capitalist exploitation' (2009: 149). Indeed, it appears that Nitzan and Bichler eschew the concept of exploitation altogether. For those unfamiliar with their work, this may at first appear to bring them dangerously close to a political position similar to forms of classical and neoclassical political economy since exploitation is written out of their theory of production and income distribution. Whatever one thinks of their critique of Marx's analysis of accumulation and Marxian political economy more generally, it is fairly easy to see why self-identified Marxists could immediately dismiss their work: the concept of exploitation appears to vanish, and with exploitation gone, so does the need for radical social change leading up to revolution of the social order. But do the authors really want to shed the concept of exploitation or can it be usefully reframed within their own approach? Does it need to be for their critique of capital as a mode of power to be a convincing radical break from the traditional schools of political economy? Answering these questions might not only help critics and supporters of their work gain a better understanding of their critical approach but also, and perhaps more importantly, it could help illuminate what political position their framework and empirical findings entail. It could help answer that age-old question: What is to be done and why?[11] However, while seemingly abandoning the concept of exploitation may serve to raise tempers among Biblical Marxists, it could also be the case that focusing on 'exploitation' as understood from the vantage point of Marx's labour theory of value misses the far more profound and even more radical critique of capitalism found in *Capital as Power*.[12] And here I want to push the present interrogation in two major directions.

First, the capital as power framework begins from the premise that all production is social and insofar as it is social and *can only be* social, it is impossible to attribute a specific output to anyone in particular let alone identify all the inputs (Nitzan and Bichler 2009: 102, note 16 and 223ff). If this is an empirical impossibility then the unequal distribution of income must be a matter of organized differential power grounded in the rights of ownership. At first this view seems to accord nicely with Marx and Engels' (1848) interpretation of production when they discuss the social property relations distinct to their interpretation of capital:

> Property, in its present form, is based on the antagonism of capital and wage labour … To be a capitalist, is to have not only a purely personal, but a social status in production. *Capital is a collective product*, and only by the united action of many members, nay, in the last resort, only by *the united action of all members of society*, can it be set in motion. *Capital is therefore … a social power.* When therefore, capital is converted into common property, into the property of all members of society, personal property is not thereby transformed into social property. *It is only the social character of the property that is changed.* It loses its class character.
>
> (emphases added)

What this passage suggests is that Marx and Engels conceived of capital as the embodiment of collective social power that did not belong to society but to individuals and groups who were able to ensure that a portion of social productivity became their own personal property. Put another way, the institution of capitalist private property, so long as it is upheld and enforced, ensures that capital can become *privatized* social power. It follows then, that since capital is at base a social product, all that needs to be altered in order to achieve progressive change is the class character of ownership from private property to what it already truly is: social property. This understanding of capital appears to accord with Nitzan and Bichler's appreciation of Veblen's concept of industry. For Veblen [1904] (2005), industry was conceptualized as a synchronized social process concerned with creativity, cooperation, functionality, effectiveness and human well-being. But while Marx and Engels might have headed in the right direction by realizing that capital is social power, when it came to actually explaining accumulation, Marx focused solely on the exploitation of labour in the production process. As identified by Nitzan and Bichler, this error has created enormous problems for Marxists – not least the alchemists still attempting to transubstantiate values into prices – a miracle yet to be performed and unlikely to be achieved (Nitzan and Bichler 2009: 89).[13] Outside of trying to solve the transformation problem, problems compound for Marxists since they narrow-mindedly focus on exploitation in the production process to explain accumulation. For example, critical feminists have been at pains to point out to their male counterparts that such a myopic viewpoint ignores how women's unpaid work of social reproduction in the home (e.g. reproduction of the labour force, caring, provisioning) subsidizes and therefore contributes to 'surplus value' (Bakker 1994; Elson 1998; Bakker and Gill 2003: 32ff).[14]

Perhaps the great advance of Nitzan and Bichler's power theory of value is that it does not allow this bifurcation in the first place. They understand capital as a mode of power (see glossary) where accumulation is not simply an outcome of production but an entire matrix of vertical and horizontal power relations that are discounted and capitalized by absentee owners/investors who are in a strategic position to redistribute more income to themselves. From this point of view, the ruling class of capitalists does not just have power over producers during their paid working hours, but over the entire lives of non-capitalists insofar as they are in a constant process of shaping and reshaping the terrain of social reproduction while also capitalizing multiple facets of everyday life.[15] For example, consider the proliferation of credit cards with relatively high interest rates. Banks justify these high interest rates because they are legally responsible for debts incurred if the cardholder defaults. To get a credit card or multiple credit cards, one typically has to have paid employment and the level of credit offered is typically (though not always) contingent on the level of income. When capitalists invest in a bank with a credit card division, part of what they are capitalizing is *the entire process of fiat money creation* along with the bank's power to attract customers and charge and collect interest for the use of their card 'products'. But they are also capitalizing a worker's dependence on paid employment and a social order where people need (or feel they need) credit cards in order to reproduce their lifestyles. And for this, the banks redistribute a portion of the worker's income to themselves by collecting interest on revolving balances. Much of the same could be said for mortgages. Thus, from the perspective of capital as power, the entire social order is organized by and for the symbolic accumulation of money for a global minority but a system whereby almost everyone is implicated – a system of domination that extends over humanity and their everyday life practices, not the industrial workplace alone. Moreover, Nitzan and Bichler argue that this mode of power does not have a 'built-in kill switch' or predetermined path, meaning barbarism is just as likely as socialism (Bichler *et al.* 2012: 14–15). This is perhaps a first reason why Nitzan and Bichler offer a far more radical critique of capital and it provides us with a compelling reason for why we ought to challenge the commodification of differential power.

Moreover, since capitalists *must* sabotage human creativity and the overall industrial potential of society there is not only unneeded and unnecessary suffering in the world but human capacity – what is possible for humanity to achieve – is stunted and misdirected towards a concern for profit rather than human livelihood and well-being. Here I'll just mention a few examples. We have the knowledge, capacity and technology to provide HIV/AIDS drugs and other vaccines to the millions that die unnecessarily every year – but this would either impede upon the profit of the large pharmaceutical companies or they wouldn't produce these drugs in the first place since curing disease and selling to poor people without a sufficient income is hardly profitable without some sort of public guarantee. We also have the capacity to feed the world the necessary daily caloric intake but we do not. A large reason for this is that food is a commodity and such a venture would impede upon the profits of the firms that control the global food market or require downward income redistribution to finance provisions (George 2010). Last, we could provide free wireless internet access at high speeds to virtually every community at cost – but this would impede upon the profits of the telecommunications giants. This list could continue almost *ad infinitum* but the point here is that illegitimate power, the necessity of sabotage, unnecessary suffering and unfulfilled human potential and cooperation provides for a powerful critique of capital – not as a mode of production but as a totalizing mode of power crippling human creativity.

So while Nitzan and Bichler do not expressly use the concept of exploitation, their social ontology informed by Veblen's concept of industry provides convincing answers for why we ought to seek to transform the state of capital.

The more difficult question is: What is to be done? And this is the second direction in which I would like briefly to push this interrogation. While the neoclassical school of economics is hardly concerned with the revolutionary overthrow of capitalism, Marxists have certainly advocated revolution with the goal of abolishing capitalist private property. Whatever the separate tactics and factions of Marxism, the main focus of revolutionary struggle has almost always been the government. But from the point of view of capital as power, this institution is just one form of capitalized power in a sea of other capitalized entities – often with considerable structural power to extract tribute or use direct force. Furthermore, there is little sense in talking about revolution and changing the social order if: 1) we don't have a general agreement on what capital is in the first place, and 2) we have little to no idea what public policies to put in place to ensure an end to capital as power and the general well-being of the population. Since Nitzan and Bichler are largely silent on these issues – much more work needs to be done, particularly in IPE – on coming to a consensus over a definition of capital and thinking about what a de-capitalized, democratic and cooperative social order would look like.

## IPE and the unfashionable problematic of 'capital'

> … the production function has been a powerful instrument of miseducation. The student of economic theory is taught to write Q = f (L, K) where L is a quantity of labor, K a quantity of capital and Q a rate of output of commodities. He is instructed to assume all workers alike, and to measure L in man-hours of labor; he is told something about the index-number problem in choosing a unit of output; and then he is hurried on to the next question, in the hope that he will forget to ask in what units K is measured. Before he ever does ask, he has become a professor, and so sloppy habits of thought are handed on from one generation to the next.
>
> (Robinson quoted in Cohen and Harcourt 2003: 199)

By the time post-Keynesian economists took up their pens amidst the rubble of World War II, the marginalist revolution of the late nineteenth century had severed 'economics' from 'politics', and created the new 'science' of Economics. The will to mathematical science and formalism, combined with generous funding from benefactors such as John D. Rockefeller and the need to offer an alternative to Marxism, helped to establish the neoclassical school as hegemonic. Political economy could not be totally trampled underfoot, but it was pushed to the margins and out-taught by the proliferation of Economics departments inculcating the microeconomics of marginalism and the uneasy 'neoclassical synthesis' into young minds. In the hands of the neoclassicals, capital became firmly anchored in materialism. It was no longer a contested concept as it had been in the annals of political economy. Capital now meant one thing and one thing only: capital goods or the equipment and machines used in production. This interpretation combined with Clark's production function made income distribution a function of each factor of production's specific contribution to economic output, thus justifying profit and by extension, the distribution of wealth in society. Exploitation was effaced from the new 'science' and the real nature of power and accumulation obscured. Everything was in its right place and economic actors ate their just desserts.

By the 1960s, however, heterodox economists began to question the neoclassical concept of capital – most famously in the Cambridge Capital Controversy – a dispute between heterodox economists from Cambridge University in the UK and neoclassical titans at the Massachusetts Institute of Technology in Cambridge, Massachusetts, US. The technicalities of the controversy are told in detail elsewhere, but the outcome is far more important for our purposes: the neoclassical economists had to admit that their concept of capital, and therefore their production function and justification for income distribution, was dead wrong. Despite this admission, neoclassical economics continues along much the same lines as it did in the past – acting as a cover and justification for the unequal distribution of wealth and obscuring much else behind formal models built on untenable assumptions. Things lay relatively dormant until one telling moment challenged the neoclassical wizards behind the curtain. In the heat of the Occupy Wall Street

Movement, students at Harvard staged a walkout of Greg Mankiw's Economics 10 class – a significant event given Mankiw's reputation as a leading economist and his prominent role in advising organized wealth represented by the Republican Party. Organizers of the walkout published an open letter to Mankiw in the *Harvard Political Review* worth quoting at length. It read in part:

> Today, we are walking out of your class, Economics 10, in order to express our discontent with the bias inherent in this introductory economics course. We are deeply concerned about the way that this bias affects students, the University, and our greater society.
>
> As Harvard undergraduates, we enrolled in Economics 10 hoping to gain a broad and introductory foundation of economic theory that would assist us in our various intellectual pursuits and diverse disciplines, which range from Economics, to Government, to Environmental Sciences and Public Policy, and beyond. Instead, we found a course that espouses a specific—and limited—view of economics that we believe perpetuates problematic and inefficient systems of economic inequality in our society today…
>
> Harvard graduates play major roles in the financial institutions and in shaping public policy around the world. If Harvard fails to equip its students with a broad and critical understanding of economics, their actions are likely to harm the global financial system. The last five years of economic turmoil have been proof enough of this.
>
> We are walking out today to join a Boston-wide march protesting the corporatization of higher education as part of the global Occupy movement. Since the biased nature of Economics 10 contributes to and symbolizes the increasing economic inequality in America, we are walking out of your class today both to protest your inadequate discussion of basic economic theory and to lend our support to a movement that is changing American discourse on economic injustice.[16]

But while the field of Economics subjected the concept of capital to scrutiny and we may see more protests like the one at Harvard challenge orthodox Economics departments in the future, IPE has so far failed to offer a sufficiently rigorous and persuasive definition of capital (Nitzan and Bichler 2000: 67–88).[17] Put simply, the problematic of 'capital' seems to be rather unfashionable in IPE despite forests worth of writing, theorizing and empirical work on the institutions, regimes, financialization, contradictions, social forces, hegemonies, and world orders of capital-*ism*. This is not to be read – in any way – as a wholesale denunciation of the literature in IPE, but rather as a challenge to the field to address the lack of analytical attention paid to one of its central concepts, if not *the* central concept of international or global political economy.

Perhaps surprising to some, IPE is not an offshoot of political economy but the outcome of dissatisfaction with International Relations (IR). The field emerged amidst the transformative events of the 1960s and 1970s – a conjuncture that suggested to some that the divorce between politics and economics within IR was not particularly helpful for thinking about a changing international economy and growing interdependence if not economic integration (Strange 1970; Underhill 2000; Phillips 2005; Dickins 2006). From this point on, IPE became institutionalized in academic departments, specialized textbooks, disciplinary journals and book series. Despite recent debates sparked by Cohen (2008) on whether IPE is divided between American and British schools – each with their own idiosyncrasies – the field is undoubtedly home to a diversity of theoretical and methodological approaches and addresses a wide range of big-picture concerns as well as more practical and mundane issues.[18] However, while the field has had little problem talking about abstractions such as the 'market', the 'economy' or even (and this seems to be more the preserve of the so-called British school) 'capitalism', with few exceptions, rigorous and persuasive definitions of 'capital' are hard to come by if not next to impossible to find.[19] What scholars understand as 'capital' appears far more implicit than explicit, leaving the reader either to ignore the problem altogether or to infer what is meant when terms like the economy, capitalism and the market – all intimately related to capital – are used. When IPE is more self-reflexive, the reflexivity seems to shine a light on the field's intellectual divisions, the merits of those divisions and how we might learn to build bridges and speak to one another (Murphy and Nelson 2001; Phillips and Weaver 2010; Bruff and Tepe 2011). The recent reasons suggested for these divisions are varied, but not one focuses on the question of capital. This seems somewhat strange given that there is a gaping hole at the center of IPE: it has no persuasive and rigorous definition of capital, and with no accepted definition of capital, you can forget about any attempt at a unified field of knowledge and research – it's every fief for itself (Nitzan and Bichler 2009: 2).

As identified by Cochrane (see Chapter 1), this is far from 'conceptually unproblematic' for at least two major reasons. First, how is it possible to have a discussion of the market, the economy, financialization, the state, let alone capitalism, without a convincing understanding of capital? If we are left to assume that those writing and researching in IPE are implicitly operating with a definition of capital used by either the neoclassicals or the Marxists, are they not aware of the grave problems with the utility and labour theory of value (Cochrane 2011: 89–90)? On this note it would be interesting to ask leading theorists of IPE what their working definitions of capital are. My suspicion is that the answers would contradict one another and help to enlighten the field as a whole on a leading cause of division. But this does not mean that I have a naïve vision of a unified theory of knowledge.

Second, many critical IPE theorists have a strong normative stance against capitalism and other forms of illegitimate power – a position I share. Our work not only seeks to understand the historical emergence of the current world order, but also asks how far and in what ways we may identify opportunities for progressive and humane social change. But if capitalism is to be critiqued, shouldn't our analysis be informed by a convincing definition of capital, and on this definition build our theory and construct our empirical analysis? How is it possible to propose a convincing alternative to the present order if our understanding of that order is grounded in a disproven theory of capital and its accumulation? The epic failure of the Soviet Union and its 'scientific' Marxism provides perhaps the best historical case of reconfiguring entire societies premised upon a mistaken definition of capital. The results of this experiment are well known and will not be rehearsed here. But if, as Nitzan and Bichler argue, capital is capitalized differential power, and differential power rests on exclusive ownership and the dissonance and sabotage of human potential for the sake of the symbolic accumulation of power, then we might look for public policies and ways of organizing society that challenge the entire order of social property relations and the ways, means and ends of our most powerful institutions. What I would suggest this means is that those of us 'unsatisfied' with the current state of things, start to imagine the potential for a de-capitalized, cooperative global society, with democratic, resonant and progressive forms of production and social reproduction. Surely this would not only entail having an alternative vision for a future political economy – as in the parecon project – but also a deep understanding of the tactics, technologies and strategies for achieving it (Albert 2004; Gill 2012). In many ways, I would suggest that we need to reflect upon existentialism, not only to relearn that existence precedes essence (and this would help challenge all kinds of formal mathematical modelling that essentializes and reifies human behaviour), but to have a serious discussion about the fundamental question of politics, if not our earthly existence: what is the good life and what is life for? In the corporate-dominated universe we have plenty of answers. As Gill (1995) recognized many moons ago, capitalists would prefer that we self-actualize through consumption and 'commodified desire'. But the time is ripe, historically, intellectually and practically for systemic transformation. Critical IPE needs to continue to deal directly with the masters of production and social reproduction. In a world of increasing energy prices, global climate change, widespread environmental degradation and species extinctions as well as obscene and unjustifiable levels of inequality and corruption, we owe future generations at least this much.

For better or ill, there have been many so-called 'turns' in IPE. Each turn purports to fill some yet unidentified gap in the literature and each purports to yield new insights into the global political economy. But despite these turns and twists, the field still lacks a persuasive definition of the central institution of our global political economy: capital. In my view, it is high time that IPE addresses this 'lack' and I would argue that engaging with the power theory of value is a worthwhile start.

## Notes

1 This last phrase is a play on Shilliam (2004). I would like to thank Jonathan Nitzan, Silke Trommer and Hanna Kivistö for helpful comments. Errors remain my own.
2 This topic was first broached by Nitzan and Bichler in Palan 2000: 85ff.
3 I say relatively spontaneous here due to the fact that *Ad Busters* incited the protests.
4 http://occupywallst.org/about/ (accessed July 2, 2012).
5 Interestingly, Zuccotti Park is what the government of New York City calls 'privately owned public space' and was named after John Zuccotti, the chairman of the company

that owns the park: Brookfield Office Properties. As a further note: whether the contrast between the 1% and the 99% has been able to burrow itself in popular discourse and what strategic weight it might have for global working class struggles cannot be fully assessed at this time.

6 For a wider discussion see Bichler *et al.* 2012.

7 For a discussion on the structural power of capital see Gill and Law 1989.

8 All quotes above are taken from the *Oxford English Dictionary* online edition (accessed July 21, 2012).

9 Interestingly it was in 1844 when Engels showed Marx what was to become *The Condition of the Working Class in England* and Marx penned *The Economic and Philosophical Manuscripts*.

10 For a wider discussion see Nitzan and Bichler 2009: 110ff. I use the term 'dangerous' here since it appears to be very close to social Darwinist debates about the 'fit' and 'unfit'.

11 The classical formulation belongs to Lenin 1902.

12 Whatever attempts might be made to defend Marx's adoption of the labour theory of value, Marx himself recognized that at a certain point it would be rendered obsolete (Nitzan and Bichler 2009: 103).

13 Other self-professed Marxists are either unaware or unconcerned about the gaping hole in the middle of Marx's theory of capital accumulation (Nitzan and Bichler 2009: 83).

14 Unpaid labour in the domestic sphere does not generate an income stream and therefore cannot be directly capitalized. However, since domestic work is a necessary and integral part of other income streams, the practices of domestic social reproduction are in effect discounted and capitalized by investors. If all unpaid domestic labour went on indefinite strike tomorrow, there is no telling what would happen to levels of capitalization.

15 Unaware of Nitzan and Bichler's work, Leyshon and Thrift (2007) stumble upon the capitalization of 'income streams' as the key moment of 'finance' capitalism but lacking a theory of capital, seem perplexed as to what to make of it let alone its early history.

16 'Open Letter to Greg Mankiw', *Harvard Political Review*, November 2, 2011. http://hpronline.org/harvard/an-open-letter-to-greg-mankiw/ (accessed July 12, 2012).

17 There is also the question of what gets accumulated (see Chapter 1).

18 See the debates sparked by Cohen in *Review of International Political Economy*, Vol. 16, No. 1, and in *New Political Economy*, Vol. 14, No. 3.

19 A review of leading and recently published introductory texts in the field found only one attempt to define capital. Miller (2008) informs the reader on page xvii that he defines capital as the neoclassical economists do but appears unaware of the serious problems plagued by the utility theory of value.

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